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GOVERNOR'S BUDGET SUMMARY



1997/98

Pete Wilson, Governor
State of California

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GOVERNOR'S BUDGET SUMMARY



SUBMITTED BY
PETE WILSON, GOVERNOR
STATE OF CALIFORNIA
TO THE
CALIFORNIA LEGISLATURE
1997-98 REGULAR SESSION



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State of California
GOVERNOR'S OFFICE

PETE WILSON
GOVERNOR



January 9, 1997

To the Senate and the Assembly of the California Legislature:

I submit for your consideration the Governor's budget for 1997-98.

This document reflects the priorities that are paramount for preparing California for the challenges of the 21st Century: reforming the state's welfare system, preserving economic growth, and bringing innovation to our classrooms.

Last year, we were successful in making the long-term investments that will benefit this state for years to come. Working together, we reduced classroom sizes for our youngest learners so that they have an honest opportunity to master the gateway skills of math and reading. We also pushed the state's business tax rates to their lowest level in nearly a quarter of a century, making California even more attractive for entrepreneurs and investors.

Our mission is to continue to lay the foundation for a California of even greater promise and prosperity -- a state in which every citizen is afforded an equal opportunity to advance as far as their drive and determination allow them.

With your responsible leadership in the new year, we can achieve that promise, and ensure that this state remains the symbol of the American Dream.

Sincerely,

A handwritten signature in blue ink that reads "Pete Wilson".

PETE WILSON

STATE OF CALIFORNIA

DEPARTMENT OF FINANCE

OFFICE OF THE DIRECTOR
STATE CAPITOL, ROOM 1145
SACRAMENTO, CA 95814-4998



January 9, 1997



Dear Governor:

As Director of Finance, it is my pleasure to submit to you the 1997-98 Governor's Budget.

Once again, California continues to outperform the nation in employment, personal income growth and gains in output. We are on the verge of becoming the first state ever to produce over one trillion dollars in goods and services in one year. Moreover, the diverse sources of growth bode well for the future. Our information services, computer hardware and entertainment industries have been major sources of our job creation, and are expected to continue performing well in the future.

While the private sector is primarily responsible for California's economic growth, state government has helped create the environment that has allowed business to flourish. Reform of our workers' compensation system is saving California employers billions of dollars while providing enhanced benefits to injured workers. Tax reductions, such as the increased Manufacturers' Investment Credit and last year's 5 percent Bank and Corporation Tax cut, have boosted returns to California businesses. This Budget continues to make this type of investment by proposing a further 10% reduction in this business tax.

As important as these tax reductions are to California's economy, this Budget continues to make significant investments in the State's future workforce. It provides almost \$500 million to further reduce class size in Kindergarten through third grade. It also devotes significant resources to improving reading for students in grades four through eight, and begins a major technology investment for our high school students.

The Budget also reflects your commitment to reform California's welfare system. Consistent with your emphasis on personal responsibility, this proposal is designed to move welfare recipients into the workplace, while maintaining a safety net for children and continuing aid for those unable to care for themselves.

Staff of the Department of Finance have worked long and hard in developing this budget plan. Their knowledge, dedication and professionalism have been invaluable. I want to thank each of them for their contributions to the Department of Finance and our great State.

Sincerely,

A handwritten signature in dark ink, reading "Craig L. Brown".

CRAIG L. BROWN
Director



BUILDING FOR THE 21ST CENTURY

BUDGET OVERVIEW

California enters 1997 in the midst of continuing change—in its economy, its educational system, and in the administration of its largest social programs—presenting policymakers with opportunities and challenges that will determine the State's direction into the next century.

The Changing California Economy. 1996 marked the recovery of all of the jobs lost during the recession of the early 1990s, and saw eight consecutive months of record high employment levels. The State's economy is on track to create over 300,000 new jobs in 1997, and will continue to outpace the nation in both employment and personal income growth.

The forces driving this economic expansion are much different from those that traditionally propelled the economy. Aerospace employment—once the State's leading export industry—has been reduced by more than half. Military base closings have cut federal civilian employment in California by one-third since 1990. The State's banking, insurance and utility industries—which provided a steady source of job growth in the past—are in the midst of a restructuring.

In their place, jobs are being created in a variety of industries, with an emphasis on high technology, service delivery, and international trade. Some of these industries, such as motion picture production, are California mainstays. Others, such as multimedia, are new but logical extensions of existing entertainment and electronics manufacturing industries. Others, such as biotechnology, are emerging industries.

The blend of these emerging and traditional industries is an important element in California's renewed economic success. Multimedia is, in part, a connection between the entertainment and high-tech software industries. The Internet and intranet software industry builds on Silicon Valley's network hardware producers.

This continuing and diversified growth in the state's economy will lead to an important milestone in 1997. California is expected to become the first state to produce more than \$1 trillion in gross state Product—an annual level of economic output surpassed by only a handful of industrialized nations. By comparison, the United States did not reach the same level of economic output until 1970.

Dramatic Change in Education. With more revenues available from a growing economy, 1996 was a watershed year in California public education. The Legislature's approval of the Governor's initiative to reduce class sizes in three grades from Kindergarten through third grade has had a

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services.*

BUDGET OVERVIEW

To further improve California's climate for job creators, the Governor's Budget proposes a 10-percent reduction in the Bank and Corporation tax rate over two years.

profound impact in classrooms throughout the state: Of the 895 school districts eligible to participate in the program, 851 districts—95 percent—are reducing their class size to 20 students per teacher. Complementing this, the Governor's Reading Initiative is providing funds to purchase a new set of core reading materials for more than 1.9 million Kindergarten through third grade pupils. These, and other significant initiatives, are making a fundamental difference in the education of a generation of California children.

The Challenge of Changing Welfare. The passage of federal welfare reform legislation presents California with the historic challenge of restructuring the State's welfare system. Federal law eliminated what had been the State's largest public assistance program—Aid to Families with Dependent Children (AFDC)—and has provided a block grant to the State to fund a redesigned state program.

Building on the significant welfare reforms already enacted in California, the Budget reflects the Governor's proposal to redesign California's welfare program. AFDC will be replaced with a new assistance program designed to move able-bodied recipients into the workforce, and provide counties with broad flexibility and a shared stake in program savings. At the same time, the proposal provides a safety net for children's needs, and ensures that aid will be provided for those unable to care for themselves.

BUILDING FOR THE 21ST CENTURY

To meet the needs of a changing California, the Governor's Budget provides increased investment and new initiatives in key areas:

- ◆ It promotes a competitive business environment, through tax reform, infrastructure investment, and education initiatives for a better prepared workforce.
- ◆ It increases investment in education, by expanding the Governor's Class Size Reduction initiative to Kindergarten through third grade, and increasing his reading initiative.
- ◆ It emphasizes self-sufficiency and personal responsibility through welfare reform and prevention programs designed to address societal problems before they require remediation.

FIGURE A

1997-98 Governor's Budget
General Fund
Revenues and Expenditures
(Dollars in Billions)

	Revenues	Expenditures
1991-92	\$42.0	\$43.3
1992-93	\$40.9	\$40.9
1993-94	\$40.0	\$39.0
1994-95	\$42.7	\$42.0
1995-96	\$46.3	\$45.4
1996-97	\$48.4	\$48.4
1997-98	\$50.7	\$50.3

Continuing California's Economic Expansion. To further improve California's climate for job creators, the Governor's Budget proposes a 10-percent reduction in the Bank and Corporation tax rate over two years. A \$200 million bond is proposed to capitalize an Infrastructure Bank to help finance infrastructure projects related to business development. And with exports continuing to play a critical role in the State's economic expansion, the Budget proposes the establishment of three new foreign trade offices in Asia and South America.

Expanded Reforms in K-12 Education. Building on last year's landmark Class Size Reduction Initiative, the Budget proposes \$304 million to reduce class size in an additional grade, and funding is provided to meet facilities-related costs of class size reduction in 1996-97. The Governor's Reading Initiative proposes \$57 million for improved reading instruction in grades four through eight. The Budget also proposes a \$2 billion bond to fund class size reduction as well as a new program for school growth and facilities modernization.

Maintaining the Compact with Higher Education. The Budget fulfills the third year of the Governor's four-year funding compact with higher education, where guaranteed funding increases are paired with improved graduation times and productivity improvements. The Budget also provides sufficient funding to avoid a student fee increase next year at both the University of California (UC) and California State University (CSU)—the third straight year of no fee increases. In addition, \$5 million is provided to both UC and CSU for initiatives tied to economic development, and funding to California's Community Colleges is increased for an innovative program to provide skills to welfare recipients to help them advance in the workforce.

A Continued Commitment to Public Safety. The Budget includes the second year of the Citizens' Option for Public Safety Program, through which \$100 million will be provided to local governments to increase frontline law enforcement, and local governments will receive the maximum amount of federally approved funds for the construction of needed local jail and juvenile detention facilities.

An Investment in Preventive Government. The Budget proposes a \$35 million Infant Health Protection Initiative, designed to protect children from abuse or neglect from substance-abusing parents. Funding for mentoring programs is nearly doubled, and the Governor's Partnership for Responsible Parenting is continued. The Budget also provides \$15.3 million to increase immunizations for low-income children, and expands investigations and surveillance of emerging and infectious diseases.

Protection of California's Natural Resources. The Budget provides funding for a Coastal Initiative designed to protect California's coastline, protect wetlands in the San Francisco Bay area and Southern California, and restore and enhance Southern California beaches. Also proposed is a Watershed Initiative to recover deteriorating watersheds while providing for sustainable development.

Maintaining Fiscal Discipline. The Budget keeps the State living within its means by holding General Fund expenditures below General Fund revenues. California still has the smallest state government workforce in the nation as a proportion of the state's population. In addition, the Budget assumes the continuation of prior year reductions in health and welfare programs, as well as elimination of the Renter's Tax Credit Program.

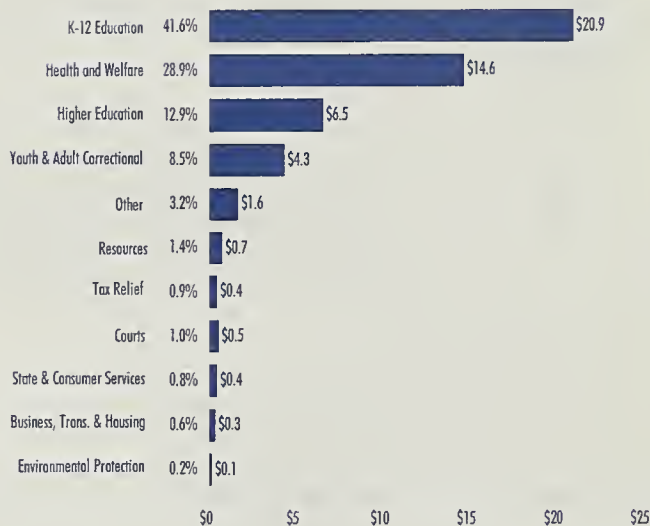
This Budget assumes that the federal government will meet its financial commitments for health care and incarceration of illegal immigrants as well as provide the State with flexibility on SSP grant levels. Failure to achieve these changes will require additional reductions in the areas of Welfare Reform and Medi-Cal optional eligibles and benefits.

For California to receive the best economic and societal return on its investment, the Governor's Budget invests the State's resources in education, prevention, and an improved business climate for job creation—building for the 21st Century.

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FIGURE B

1997-98 General Fund Expenditures
(Dollars in Billions)



ECONOMIC GROWTH FOR THE 21ST CENTURY

The **Trillion Dollar Economy.** The California economy continues to outperform the nation in job creation, personal income growth, and gains in output. Building on two strong years of growth, California is on the verge of becoming the first state to produce over one trillion dollars worth of goods and services in a single year. Both the totals and the sources of this growth are encouraging for the future. Entertainment, computer hardware, and information industries (software, multimedia, and internet-related) have been major engines of growth—offering high wages, generating strong export growth, and creating opportunity for entrepreneurs. In 1996, manufacturers added jobs in California while the rest of the country lost them. Exports of goods made in California grew rapidly, despite a strong dollar.

Building On Success. California's remarkable economic recovery is being driven by the state's vibrant private sector. But the upturn has been assisted in no small measure by actions taken by state government which have helped to create an environment for growth. Prominent among these is the reform of California's Workers' Compensation System, which is now saving employers billions of dollars in annual premiums while providing enhanced benefits to injured workers. The Manufacturers' Investment Tax Credit is undoubtedly contributing to the growth in California manufacturing jobs at a time when factory employment nationwide is declining.

This year's five-percent reduction in the State's Bank and Corporation Tax is boosting returns to investment in California. The ongoing process of streamlining and simplifying regulations is also helping to improve the State's business climate by speeding the permit process and reducing uncertainty. In addition, California is implementing the most comprehensive electric utility deregulation in the nation. Over the next five years, private-utility electric rates will be slashed by a minimum of 20 percent, and there will be intense competitive pressure on publicly-owned utilities to follow suit.

Keeping The Edge. Maintaining California's growth cannot be taken for granted. California's success depends on the individual decisions of investors and households who find the state an attractive place to live, work, build new businesses, and expand existing ones. They have been encouraged by decisions of the Governor and the Legislature that have promoted a positive business climate while taking care to improve the environment, rebuild highways, enhance the quality of public schools, and find new ways to replace the commands of regulation with the market forces of competition.

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.....◆.....

It is certainly true that California offers many advantages to new or expanding businesses—a well-educated workforce; high labor productivity; major markets within the state; and access to world markets, especially the growing economies of the Pacific Rim and Latin America. But fostering California's growth into the 21st Century means remaining attractive to investors and entrepreneurs. When new investment is planned, companies and individuals have many choices of where to locate new jobs or relocate existing ones. These decisions depend on one thing more than any other—comparisons of after-tax return to investment.

Maintaining Momentum. To maintain the momentum of economic growth, California needs to become more competitive in corporate taxation, especially as other states reduce their tax rates. Last year, 17 states made changes to their business taxes with several making broad-based business tax reductions. Two tax-related proposals are made in this Budget to improve the competitive position of California: tax rate reduction for corporations and increased flexibility for small- and medium-sized businesses.

Last year, the first phase of reducing the Bank and Corporation tax rate was enacted and the rate was reduced by five percent effective January 1, 1997. The Governor proposes to continue this process by implementing two additional Bank and Corporation tax cuts of five percent each in 1998 and 1999—reducing the tax rate by a total of 10 percent from the current level. Combined, these reductions will drop the rate below five other states compared to the current ranking, attracting new jobs to California by increasing the rewards for successful businesses. In addition, the Governor proposes simplifying requirements for Subchapter S corporations by conforming to recently enacted federal rules relating to the number of shareholders.

Improving the Regulatory Environment. The guiding hand of competition in the marketplace best serves the public interest, and reducing the regulatory burden on business is a major part of improving the business climate. California has made enormous strides in recent years to reduce unnecessary red tape and streamline the regulatory process. The Administration proposes to continue efforts to streamline the regulatory climate by requiring that all state regulations go through a sunset review process every five years.

Based on six roundtable discussions that were held throughout the state in 1996, 3,900 regulations were identified for abolishment by the Administration. Currently, 3,100 of these either have been or are in the process of being repealed. Through the coming year, additional steps in reducing duplication, removing redundancy, and streamlining regulatory processes will be proposed.

Financing Infrastructure. The long-term economic health of California depends on adequate private and public investments in infrastructure. The Governor's Budget proposes a \$200 million General Obligation Bond Program for the capitalization of an Infrastructure and Economic Development Bank, consistent with the intent and objectives of legislation enacted in recent years.

The Bank will operate much as an investment or merchant bank, creating pools of bonds, utilizing the State's often-superior access to credit markets, arranging private bond insurance to back some issues, and seeking private capital when appropriate. The Bank will assist local governments and businesses in the financing of roadways, sewers, water mains, defense conversion projects on closed military bases, and other critical infrastructure needs.

As part of this effort, the Administration is proposing to consolidate the Trade and Commerce Agency's financing authorities into one entity—eliminating duplication in decision making and creating a single contact point for the Agency's infrastructure financing activities.

Facilitating Export Growth. California is the nation's leading exporter, with the State's trade growing at twice the national pace. The State includes the nation's busiest Customs District—

.....

one-fourth of the nation's container freight moves through the adjacent ports of Los Angeles and Long Beach. Including over \$100 billion of merchandise and an estimated \$50 billion in services—such items as motion pictures, television programming, computer software, and engineering consulting—California exports about as much to international destinations as to the other 49 states. In part, the strength of California exports is a result of having foreign trade offices. This Budget proposes \$939,000 to create three new offices—two in Asia and one in South America—to provide California companies with representation and assistance in these emerging markets.

California's economy is uniquely positioned for the 21st Century. The proposals in this Budget build on the successes of the last several years and will help ensure that California maintains its economic leadership in the coming years.

K-12 EDUCATION

BUILDING A FOUNDATION

Two years ago, Californians learned that its students were at the bottom or near bottom in state-by-state comparisons of reading and mathematics performance. In response, the Governor and the Legislature have joined in an unprecedented focus on education.

In 1997-98, Kindergarten through grade 12 (K-12) education continues to be the highest funding priority in the Budget. Total funding has increased by \$10.8 billion since 1990-91, for an unprecedented total of \$35.8 billion. The local assistance dollars per pupil have topped \$5,000 for the first time in history. At \$5,010, the dollars per pupil have increased by \$659, or 15 percent, since 1994-95.

New resources have been dedicated to improving reading and mathematics instruction in our schools in several closely related ways. The first phase has been to implement a series of initiatives designed to improve student mastery of the fundamentals of education. These initiatives include class size reduction, teacher training and beginning teacher support, the adoption of instructional materials which emphasize the use of basics such as phonics, as well as the Governor's Reading Initiative, which will assist teachers in providing the best instruction possible in this critical area.

CLASS SIZE REDUCTION

Operations Funding. In 1996-97, a historic step was taken to ensure that early learners in elementary school have the opportunity to master reading and mathematics, which form the basis for future success in higher grades, and preparedness for college. Nearly \$1 billion was directed to reducing class size to a maximum of 20 students per class in grades Kindergarten through third (K-3). This funding provided for an incentive payment of \$650 per child placed in classes of 20 or less for the full day in three grades—first and second grade, and a choice of Kindergarten or the third grade. A half-day option, with the reduced class size utilized primarily for reading and mathematics instruction, is also available and generates an incentive payment of \$325 per pupil.

The State Department of Education reports that 851 of the 895 eligible districts submitted applications for funding for 1996-97, with 98.5 percent of these districts electing to participate under the full-day option. The total amount claimed to date is \$631 million, leaving \$140 million potentially available for other purposes such as facilities funding (see below). With this new program,

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almost one million K-3 students are receiving instruction in classes of 20 or less in 1996-97. The Governor's Budget proposes not only continuing that level of funding, but providing an additional \$304.3 million to fully implement the program in all grades K-3. The total funding level of \$1.26 billion will provide a high-quality learning environment for nearly two million children.

Facilities Funding. Of the 1996-97 resources for class size reduction, approximately \$350 million will be dedicated to provide the facilities required for class size reduction at a level of \$25,000 per new classroom. In 1996-97, \$200 million was provided for grants to school districts to assist in the facilities-related costs associated with implementing class size reduction. However, the applications exceed the amount of funding provided for this program. The Administration is proposing urgency legislation (AB 89) to provide \$151 million to fully fund all 1996-97 requests for facilities grants for a total of \$351 million for the 14,000 new classes needed this year.

The current class size reduction facilities grant level of \$25,000 per new classroom needed is approximately one-half of the cost of a new portable classroom. As districts expand the implementation of class size reduction, existing space will be fully occupied and more costly solutions for facilities may be necessary. To meet this demand, the Governor supports a statewide school bond for class size reduction facilities to, in part, provide additional grants and to increase the current grant amount (see below).

Teacher Training and Beginning Teacher Support and Assessment Program. To reduce class size effectively, many new teachers are needed and it is critical that these teachers receive the support and development necessary to retain them. In the last legislative session, the Administration supported AB 1068, which would have provided an additional \$4.5 million in support of district-based teacher internships, and allowed retired teachers to return to the classroom with a temporary suspension of the earnings cap. While the Governor signed the bill, it did not become law because its operation was dependent on another bill that did not reach his desk. This year, AB 18 has been introduced to remove that dependency and is supported by the Administration. In addition, the Governor's Budget includes an expansion for the Beginning Teacher Support and Assessment Program of \$10 million. This Program will assist the thousands of new teachers in our early grades by enhancing their opportunities for professional success, and helping to retain them to ensure stability in the classroom.

Governor's Reading Initiative. In 1996-97, the \$200 million Governor's Reading Initiative was launched. The funding is for: (a) new reading materials that emphasize phonics and phonemic awareness; (b) teacher training; (c) school district leadership training; and (d) funding for the development of an assessment of teachers' skills in reading instruction. The Governor's Budget builds upon this foundation by including an additional \$57.5 million for improving reading instruction, of which \$46.4 million is earmarked for retraining teachers in grades four through eight. It is critical that older students begin to receive the benefits of the improved reading instruction now available to the early grades.

Math Initiative. Similar to the development of the Governor's Reading Initiative, \$2.4 million is provided in the Governor's Budget to begin development of a mathematics instruction initiative. This Program will build on the recommendations of the Mathematics Task Force and will identify the most effective and appropriate teaching strategies for this critical subject area.

Academic Standards. The Administration continues its commitment to develop rigorous standards for use in both the existing local incentive testing program and the proposed statewide assessment instrument. The body created in statute to develop these standards, the Commission for the Establishment of Academic Content and Performance Standards, has organized quickly and held its first meeting in September 1996. The Commission has adopted an ambitious schedule for developing world class academic standards for California. The Commission is using an innovative and

analytically sound approach for ensuring that California's children have the best content and performance standards yet developed. The Commission will draw from the best of the existing models to construct its base standards, and build on that base to ensure the standards are comprehensive, rigorous, and grounded in the core curriculum.

SCHOOL FACILITIES

The Governor is proposing a \$2 billion bond for both class size reduction and a new program for growth and modernization. This program will be greatly simplified from the existing school construction program, which requires 64 different steps, five to seven years to complete a project, and does not equitably balance the financing burden between state and local resources.

In place of the current program, the Administration proposes a new school construction program. It would: (a) reduce the vote threshold for local school bonds, (b) provide that the state fund no more than one-half the costs of school construction, and (c) reform the issues surrounding the use of developer fees.

The Administration proposes to allocate bond funds for new construction and renovation by a new set of criteria. The bond measure would specify a fixed amount for new construction based on student growth in each district, at a rate not to exceed one-half of the average cost for new construction per pupil. Districts would also receive a smaller fixed amount per existing pupil for infrastructure improvements and renovation needs of existing facilities. Finally, funds would be reserved for small districts, districts experiencing a critical need with no available resources, and for the lease of portable classrooms.

Because the bond act would specify criteria for the distribution, the funds would not be subject to the criteria of the current state school building program. Districts would be able to predict how much they could receive and would have greater control over the use of the funds within specific parameters. As a result, there will be a simpler and less costly building program.

The Administration's school bond proposal would also provide funds specifically for facilities which will permit schools to continue class size reduction efforts. As districts expand the implementation of class size reduction, existing space will be fully occupied and more costly solutions for facilities may be necessary. Therefore, this proposal would increase the current grant amount from \$25,000 to \$40,000 per new classroom.

EDUCATION TECHNOLOGY INITIATIVES

The Governor's Budget proposes several initiatives for educational technology. These include: a \$50 million high school initiative (Proposition 98 General Fund, see below), an additional \$10 million for the donated computer programs (federal funds), as well as two locally-based pilot programs (Proposition 98 General Fund), one operated by the Kern County Office of Education and the other by the San Diego County Office of Education.

The Governor is proposing a \$2 billion bond for both class size reduction and a new program for growth and modernization.

... computer literacy... is vital to a student's success in and out of the classroom.

Increasing Access to Educational Technology: The Administration believes that computer literacy must be included as a new "basic" that is vital to a student's success in and out of the classroom. Recognizing that technology literacy will be a requirement for job seekers of the future, high school students will be the first group to benefit from a new investment in educational technology. This program is anticipated to be a long term, multi-year, financial strategy to provide nearly \$500 million over the next four years.

The Budget provides \$50 million to establish the Governor's High School Educational Technology Initiative, which will provide grants to high schools for comprehensive technology installation projects. Funds may be used for computers, wiring, instructional software, and staff development, and will be matched through local resources. Therefore, through the initial year of this new initiative, as many as 100 high schools will have the opportunity to transform instructional programs to fully integrate technology.

First-year projects will act as models for high schools funded in subsequent years. These projects will be selected based on criteria developed by Department of Information Technology, Office of Child Development and Education, and State Department of Education. Future funding will be provided to ensure each high school in the state receives a grant within four years. An additional amount will be allocated to each high school on an ongoing basis to maintain and upgrade the project after the initial installation.

CHILD CARE/PRESCHOOL

As part of his ongoing commitment to invest in children, the Governor has supported a significant increase in funding for child care and development for both low-income families and those receiving public assistance. The Administration has supported a dual policy of providing quality early childhood education for children while helping families achieve self-sufficiency.

Since fiscal year 1990-91, State General Fund support for child care and development in the education budget has increased more than \$200 million, from \$348 million to \$556 million in 1996-97. As part of the Administration's ongoing commitment to ensuring that three and four-year olds from low-income families have child care experiences which prepare them for school, the Governor has focused most of this expansion effort on the State Preschool Program. Since 1990-91, the State Preschool Program has increased by more than \$84 million, from 40 million in 1990-91 to \$124 million in 1996-97. In addition, steps taken by the Administration have helped California increase its share of federal funding for child care from \$3.5 million in 1990-91, to over \$340 million in 1997-98, including \$79 million in new federal funds to help meet the expected increase in need for child care as more welfare families work toward self-sufficiency under federal welfare reform.

ACADEMIC MENTORS

In his first State-of-the-State Address, the Governor proposed an academic mentoring program. The Academic Volunteer and Mentor Service Program was enacted in 1992. The Program was implemented in 76 local education agencies and 155 school sites in 1996-97, using an allocation of \$5 million. The Governor's Budget proposes a doubling of the program to an ongoing annual allocation of \$10 million.

HIGHER EDUCATION

KEEPING THE PROMISE

California faces increasing competition in the global marketplace and from within the United States. Two of the State's most powerful advantages are its strong system of higher education and an educated workforce.

The Administration remains committed to maintaining the quality of the State's higher education system, which provides rich dividends to the people of California. The promise of an affordable, accessible, and high-quality college or university education, which was made to past generations of Californians, has been kept and renewed. It is perhaps more important now than at any other time that the State maintain this commitment and that it continue to invest in its higher education system.

THE COMPACT

In January 1995, the Governor proposed a four-year compact with higher education. After several years of budget reductions, caused by the economic recession, the Governor's compact was designed to provide the two university systems with fiscal stability and predictability so they could continue to meet the challenge of providing a growing population with a high-quality education. The four-year plan provides for annual increases in General Fund support and capital outlay funding, but recognizes that productivity improvements and student fee increases are also necessary to produce the resources required to achieve the compact's goals of maintaining access and quality. The compact commits the systems to setting aside one-third of new fee revenues for financial aid to offset the effect of fee increases on needy students. However, for the last two years, growth in the State's economy has provided the Governor and the Legislature the ability to provide sufficient General Fund revenue to avoid a fee increase at both the University of California (UC) and the California State University (CSU). For the third consecutive year, this Budget contains sufficient funds to avoid a fee increase in 1997-98.

The State and the university systems have honored the commitments included in the compact. The State is providing funds above what was proposed in the compact, and the UC and CSU are focusing on greater access for qualified students, on providing the classes students need to graduate in a timely manner and productivity improvements.

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ACHIEVEMENTS UNDER THE COMPACT

Enrollments. Both UC and CSU have achieved significant gains in enrollment, exceeding the goals of the compact. UC's enrollment has increased to 155,000 full-time equivalent (FTE) students in 1996-97, which is 3,500 FTE more than originally budgeted. For 1997-98, UC plans to further increase budgeted enrollments by 1,500 FTE and will continue to admit all eligible students. CSU's 1996-97 enrollment is estimated at 260,000, which is 4,500 more than budgeted, and represents an increase of 6,600 over Fiscal Year 1995-96. For 1997-98, CSU is proposing to further increase budgeted enrollments by 2,499 FTE.

Increased Portability and Transferability of Courses. UC and CSU continue to work successfully with each other and the community colleges to improve the transferability of courses among the three segments. Both UC and CSU have established a common set of general education courses required for students seeking to transfer from the community colleges, and the number of qualifying courses continues to grow. All UC and CSU campuses have "articulation agreements" with one or more community colleges which help students wishing to transfer to a four-year institution by clearly identifying what is expected; the number of these agreements is growing. UC and CSU have both implemented procedures pursuant to Chapter 552, Statutes of 1994, which permit a student enrolled at any UC, CSU or community college campus to enroll in one course per term, on a space-available basis, at any one of the other segments. To simplify the admissions process for community college transfer students, UC has implemented a new electronic application and advising system with access through the Internet. Direct links to the system are also located at 27 high schools throughout the State; CSU is developing a similar system.

Increases in Productivity. In each of the first two years of the compact, both UC and CSU met the compact's goal of achieving at least \$10 million annually in new savings through productivity improvements. The institutions have implemented projects to improve operating effectiveness and achieve new savings through increased use of technology, streamlining current practices, and modifying organizational structures. These strategies have improved service to students in many respects. For example, the electronic distribution of financial aid means students receive funds sooner and avoid long lines on campus while waiting to receive their checks. Telephone registration and other on-line systems allow students to register for classes from remote sites, receive grades electronically, and allows faculty to extend their office hours by facilitating e-mail correspondence.

Graduation Times and Rates. Student outcomes have improved in both UC and CSU. At UC, where most undergraduates attend full-time and only about 23 percent work 20 hours or more per week, students graduate in an average 4.3 years of enrolled time (i.e., excluding time when a student did not enroll in order to work or travel). While this average graduation time has remained stable, the percentage of students who graduate continues to increase. The proportion of students who graduate in five years is 69 percent (up from 66 percent five years ago); and 77 percent of enrolled students graduate within six years (up from 70 percent five years ago).

At CSU, continuation rates for first-time freshmen are at a record high of 79 percent; for community college transfer students the rate is a similar 82 percent. Students continue to take an average load of 11.5 units, maintaining a ten-year high level. Average enrolled time to degree remains steady at about 4.9 years for first-time freshmen. These data are very favorable considering that nearly three-fourths of CSU undergraduates work at least part-time and one-third of students work 30 hours or more per week.

Faculty Salaries. Recognizing that a high-caliber faculty is the cornerstone of high-quality instruction, an important goal of the four-year compact is to increase faculty salaries to the average of their peer institutions. This will enable UC and CSU to continue to compete for the best

faculty. Salary increases provided in the last two years have enabled UC to reduce the salary lag from about 10.5 percent in 1995-96 to 3 percent in 1996-97. The proposed salary increases for 1997-98 will help narrow the gap significantly to 1.6 percent. CSU has reduced its 1996-97 lag from a projected 12.7 percent in 1995-96 to 7.5 percent.

An additional goal of the compact is that the faculty compensation system emphasize performance-based increases. At UC, faculty salaries have always been based on performance and UC is committed to maintaining this system. CSU's faculty compensation system included a performance component for the first time in 1995-96.

Capital Outlay. During the first two years of the compact, UC and CSU received a total of \$592.9 million for capital projects. In combination with remaining balances from General Obligation bonds, UC and CSU were able to address many high-priority seismic, fire and life safety, infrastructure, and educational technology projects. For 1997-98, the Administration proposes to provide each segment with \$150 million in General Obligation bonds from the March 1996 bond measure, which was approved by the voters. In addition, the Administration is proposing to provide UC with \$21.6 million in matching funds for earthquake damage to the UCLA Center for Health Sciences/Medical Center facility at the Los Angeles campus. This is in addition to the \$75 million in state matching funds provided to UC, CSU and the California Community Colleges for damage sustained during the Northridge Earthquake. It is estimated that the Federal Emergency Management Agency will provide the institutions approximately \$1 billion in federal funds for the damage that resulted from the Northridge Earthquake.

Streamlining Capital Outlay. Over the past decade, the UC and CSU have successfully managed nearly \$3 billion in state-funded capital outlay projects. In keeping with the goals of the four-year compact with higher education, the Administration is working with the segments to identify ways in which the state capital outlay process can be streamlined to further improve the ability of UC and CSU to deliver their capital improvement programs. The major objectives are to achieve administrative and project savings and to complete projects faster. As an initial step toward this goal, the Governor's Budget proposes a single authorization for all phases (preliminary plans, working drawings, and construction) of four projects within CSU's capital budget—three seismic upgrade projects and the first stage of the conversion of the Stockton Developmental Center to an off-campus site of CSU. This proposal should significantly reduce the time it takes to complete these projects compared to the more common multiple-stage authorization process.

INITIATIVES

For 1997-98, the Administration is supporting efforts of UC and CSU to refocus and expand outreach programs, integrate technology into university programs, and provide other tangible benefits for the people of California.

Outreach. It is critical in an increasingly competitive world marketplace that the high entrance standards for both UC and CSU, as well as the diversity of the student populations, be maintained. In order to permit both institutions to craft new strategies to cope with the changing social and economic pressures, the Budget proposes an additional \$1 million for each institution to expand and refocus their various outreach programs by assisting individual students to be more academically prepared prior to university admission.

Technology. Although California is the seat of the technological revolution in the world, California's public universities have not yet fully utilized the tools of technology as integral parts of the educational environment or the future workplace. In the coming months, the Department of Information Technology (DOIT) will be meeting with the UC, CSU, and the California

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Community Colleges to determine how best to improve California's higher education technology infrastructure. DOIT will also seek input from representatives of California's independent colleges and universities. In addition, this inquiry will explore whether the expense benchmarks used by the California Student Aid Commission should be revised to include personal computers or other technologies in the components which determine the cost of a college education.

Economic Improvement. The economic restructuring experienced by California makes it clear that the activities of institutions of higher learning and the needs of society must be more closely integrated in the future. To this end, the Budget proposes two separate programs at UC and CSU. The Budget proposes to continue a \$5 million cooperative research program funded in the 1996 Budget Act. This program is designed to foster the efforts of designated emerging industries through focused research at various UC campuses. In addition, CSU will explore new teaching techniques by working directly with third-grade teachers and students on new instructional methods and working through charter schools to develop programs that will specifically benefit students who traditionally have not been fully prepared to enter college; these new efforts will result in a better prepared workforce.

Cal Grant Program. Continuing a policy that began in 1996-97, the Budget proposes \$10 million to increase the Cal Grant award for new students choosing to attend an independent college or university. For students attending public universities and colleges, the Cal Grant has met the statutory goals since 1989-90. The increase proposed in this Budget will, for the first time, achieve nearly the same result for students attending private institutions. In addition, the Cal Grant Program will initiate a new grant for students intending to seek employment in the digital animation industry. An augmentation of \$1 million will be matched by the industry.

CALIFORNIA COMMUNITY COLLEGES

California's community colleges play an essential role in workforce preparation and provide the first two years of education toward a Bachelor's degree. They are an integral part of California's higher education system. Consistent with UC and CSU, there will be no fee increase in 1997-98; keeping California's community college fees the lowest in the nation. Further, to continue the Governor's policy of expanding college access for all, \$70.9 million is proposed for growth in enrollments. This will permit enrollments to increase twice as fast as the state's adult population, bringing the expected enrollment to the highest level ever.

The Budget proposes a total increase of \$238 million, including new programs to address student success and to help those on public assistance meet new work requirements while continuing their education. In addition, \$59 million of prior year Proposition 98 settle-up funds are proposed to meet one-time needs. These increases provide the resources to address the Administration's policy objectives for the community colleges including: improving student outcomes; assisting in the transition from welfare dependency to self sufficiency; protecting the state's facilities investment; investing in high technology to improve instructional quality and student services; encouraging distance learning and new teaching methods; and expanding access to ensure a well-trained, competent work force capable of competing in the job market of the next century.

Capital Outlay. During the past two years the California Community Colleges received \$209.3 million, an additional \$153.2 million is proposed for 1997-98 with a planning emphasis on child development curriculum facilities.

REFORMING CALIFORNIA'S WELFARE SYSTEM

Aid to Families with Dependent Children (AFDC), California's largest welfare program, has provided cash assistance to help needy families meet the basic requirements of food, shelter and clothing. The Program was developed in 1935 to provide support to single mothers who were widowed and for those who were abandoned by their husbands. At that time, the societal expectation for mothers was different than it is today: then, a mother's work was in the home.

Sixty years after its inception, AFDC no longer resembles the Program's original intent. It has evolved into a system discouraging work and encouraging dependency by allowing recipients to choose welfare as a way of life. Further, it creates dependency not only for a single generation, but for multiple generations.

Currently, only 20 percent of welfare recipients work. The rate of births to unmarried women has tripled in the past 30 years—roughly half of welfare recipients had their first child as a teenager, and one in three women, while on AFDC, has had an additional child. California also has the highest dependency rate in the nation, with 10 percent of all women of child-bearing age and 20 percent of all children receiving AFDC. As a result, California, which has 12 percent of the nation's population, has 20 percent of the nation's welfare caseload.

WELFARE REFORM IN CALIFORNIA

In order to reverse these trends, the Governor has successfully pushed for the most significant changes to the welfare system in the State's history. Further, he has called on the federal government repeatedly to fundamentally modify the state-federal relationship in order to achieve even broader reforms. The Governor's reforms, which have been supported by the Legislature, have been aimed at assisting individuals in moving from dependency to self-sufficiency, while combating welfare fraud so that limited taxpayer dollars go only to those in true need of assistance.

FEDERAL WELFARE REFORM LEGISLATION

The open-ended entitlement of the AFDC Program, and the rigid and cumbersome federal waiver system, have been a major contributor to the slow pace of welfare reform. However, the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 allows states to

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REFORMING CALIFORNIA'S WELFARE SYSTEM

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make much-needed changes to welfare programs. Based on a new federal-state partnership, this federal law makes state welfare reforms possible by granting states new discretion to fundamentally change their cash assistance programs.

Federal welfare reform ends both the AFDC Program and the federal entitlement to welfare—eliminating the Program's autopilot spending as well as the expectation that welfare is an acceptable way of life. In its place, a block grant to states—called Temporary Assistance to Needy Families (TANF)—will provide transitional cash assistance to families through programs designed by the states. A separate block grant is provided for child care. Unlike AFDC, TANF aid is time limited for a national lifetime limit of 60 months (whether cumulative or consecutive), except for hardship exemptions which the State can grant for up to 20 percent of its caseload. This means a welfare recipient must move from welfare to work in no more than 60 months or lose federal TANF support. In addition, states are given the opportunity to create shorter time limits, as well as broad flexibility within other areas of the welfare program.

Work participation requirements are a second area of major change. AFDC did not require recipients to work. Welfare reform establishes specific work requirements for all families, and holds states accountable for work participation. States are required to sanction (or, at their option, drop from the caseload) families refusing to participate in approved work activities. Similarly, parents are required to cooperate in the child support process, and must be sanctioned or dropped from the caseload if they do not. It also requires that paternity be established for at least 90 percent of children receiving aid; states not meeting this requirement or not demonstrating improvement in paternity establishment may be sanctioned.

These reforms fundamentally change the operation and purpose of welfare. They provide broad discretion to states, making aid temporary and requiring work by recipients as a condition of eligibility for assistance. As a result, recipients must earn their assistance. Further, welfare is made a transitional program rather than a means of permanent support. Moreover, assistance will be no more financially attractive than work by not increasing grant levels for recipients who have additional children.

THE GOVERNOR'S PROPOSAL TO REFORM WELFARE

Using the new flexibility provided by welfare reform, and implementing the State reforms that have already been enacted, the Governor is presenting his proposal for the reform of California's welfare system. The Governor's proposal encourages work, personal responsibility, and self-sufficiency for able-bodied recipients; at the same time it continues aid for those unable to care for themselves and ensures a safety net for children's needs.

Principles and Precepts

The Governor's proposal is based upon the following principles and precepts:

- ◆ The most important role of state government in welfare reform is to provide the environment that will most encourage the continuing vibrant economic growth required to produce all the jobs needed to keep pace with California's relentlessly growing population.
- ◆ Public assistance must be only a temporary transition to employment and self-sufficiency for anyone who can work. It must be expressly time-limited. It must be financially less attractive than a full-time minimum wage job. It must be limited to those who are truly needy by

vigorous enforcement of fraud prevention, and noncash grants should be used to the maximum extent possible.

- ◆ The obligation of the State is to set basic program standards including grant levels, eligibility criteria, and time limits. The success of the program is dependent upon counties having maximum flexibility to expend block grant funds to achieve results. Counties will be judged upon their results and not compliance with bureaucratic process. Counties will be strongly encouraged to use private charities that have proven to have effective welfare-to-work programs, to achieve personal supervision of recipients, as an alternative to increasing county bureaucracy.
- ◆ Work is the primary activity deemed to satisfy the federal requirement for work activity. Recipients are to be strongly encouraged to improve their employability and to improve themselves generally by education and training which will be a secondary, and only a partial, method of satisfying the work activity requirement. To provide recipients hope of a better job and upward mobility, the county may continue assisting the recipient after his or her acceptance of a job by directing them to education and training to enhance their employment potential.
- ◆ Any legal job is better than subsidized idleness. Any legal job is an acceptable means of entering the work force and must be accepted by the recipient, even if it is not as good a job or the kind of job that the recipient desires. Prospective employers will be asked to inform the county or its agent of any job offered to a recipient as a result of a referral. Able-bodied recipient parents who refuse to work will, in the absence of circumstances that prevent them from doing so, be terminated from aid.
- ◆ Vigorous, purposeful job search resulting in employment is both the personal responsibility of the recipient and the primary mission of the county as the administering agency.
- ◆ To succeed, there must be state/local/private/nonprofit partnerships that emphasize pay-for-performance to move a recipient from temporary assistance to employment as early as possible. And to do so most effectively, the county should have the flexibility to do whatever is necessary to immediately place an individual in employment, from assuring subsidized child care and health care coverage, to paying for carfare or needed minor car repair, or clothing for a job interview.
- ◆ Consistent with the block grant approach taken to allow counties to achieve greater flexibility and responsiveness, counties should be relieved of the legal requirement to provide a cash aid General Assistance program as presently prescribed by the Welfare and Institution Code.
- ◆ To provide incentives to both the state and counties to be as responsive, effective, and efficient as possible, the State and counties should share in the federal MOE requirements, and in whatever federal penalties for failure may result, and in whatever savings may be achieved from success.
- ◆ Most important, the well-being of children is paramount. The right to be a parent in more than the strict biological sense is not unconditional. To the contrary, the right to be a parent is inseparable from the obligation of parental responsibility. If, for whatever reason a parent fails in this program, the health and safety of the child should be assessed. As recognized in current law regarding the safety of children, the counties should ascertain whether the best interest of the child requires placement with another family member or in foster care. As counties realize savings from moving recipients to work, they should place priority in reinvesting those funds in programs that ensure the health and safety of children.

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REFORMING CALIFORNIA'S WELFARE SYSTEM

- ◆ To encourage parents to raise children to be healthy and productive, proof of school attendance and immunization will be required prior to eligibility for the program.
- ◆ Public assistance should not reward or encourage irresponsible or anti-family behavior by either women or men. And yet that is precisely what unreformed welfare has done by shifting financial responsibility of the parents to the taxpayer and trapping recipients by making welfare more attractive than work. The new program should not encourage out-of-wedlock births and should build on initiatives already undertaken to prevent unwed and teenage pregnancy.
- ◆ Recipients—especially those who are themselves minor children—should be offered every assistance in placing their children for adoption, recognizing that such a decision is a courageous, wise, and ultimately unselfish choice by the parent to give the child a home and opportunity which otherwise cannot be offered.

Building on Successful Reforms

The Governor's proposal builds upon the successful state reforms that have already been enacted, including:

- ◆ Greater Avenues to Independence (GAIN), a work training and education program to enhance recipients' ability to move into the workforce.
- ◆ The Cal-Learn Program, which provides services and financial incentives to keep teen parents in school until high school completion.
- ◆ The Maximum Family Grant, which prohibits increases in grants for children conceived while a family is on welfare.
- ◆ The Teen Pregnancy Disincentive, which requires teen mothers to live at home or in an adult-supervised setting as a condition of eligibility for aid and removes the incentive of pregnancy as a means to gain financial independence.
- ◆ Relocation Grants, which discourage welfare recipients from other states from moving to California by restricting grant payments to the level of their prior state of residence.
- ◆ Regional Grants, which provide two grant levels to account for regional differences in housing costs.
- ◆ Transitional Child Care, which provides up to 24 months of child care to recipients who have moved from welfare to work.
- ◆ Transitional Medi-Cal, which provides up to 24 months of Medi-Cal eligibility to recipients who have moved from welfare to work.
- ◆ The Statewide Fingerprint Imaging System, which reduces the incidence of multiple-case fraud by identifying applicants through fingerprint imaging.
- ◆ The United States Residency Verification Program, which stations investigators at border crossing points to identify and stop non residents from receiving welfare to which they are not entitled.

- ◆ Enhanced overpayment collection incentives system, which encourage counties to increase their collection efforts.

The Governor's Budget assumes that this new welfare program will begin on January 1, 1998, with full implementation in fiscal year 1998-99.

The major components of the Governor's proposal are as follows:

Program Structure and Governance

A major objective of the Governor's proposal is to give counties maximum flexibility and fiscal incentives to help people move from welfare to work within statewide program standards. The current system is driven by volumes of state and federal rules which strive for bureaucratic uniformity and discourage county initiative. It would be replaced by one that responds to welfare recipients as individuals, eliminates barriers to work, and uses the tools necessary and available at the local level to move recipients into the workforce.

- ◆ The State will set basic program standards, including grant levels, eligibility criteria, and time limits.
- ◆ The State will provide funds to counties in a block grant. Under the block grant, counties will have the flexibility to fund administration and special needs services to divert people from welfare. Counties may also provide additional employment and/or supportive services, such as child care, mental health treatment or alcohol and drug treatment.
- ◆ The costs of grants and caseloads will be funded using current state/county sharing ratios. However, as an incentive to move people into the workforce, counties will be given 25 percent of the State's share of caseload reduction savings to reinvest into the program.
- ◆ The State and counties will share in federal maintenance-of-effort requirements, as well as any assessed federal penalties such as failing to meet federal work participation requirements.
- ◆ Those provisions of the Welfare and Institutions Code that require counties to operate a cash aid General Assistance (GA) Program will be repealed. This will provide counties with greater flexibility to determine how best to deal with able-bodied adults who do not qualify for other assistance programs.

Eligibility, Time Limits, and Penalties for Fraud

The Governor's proposal underscores the temporary nature of public assistance, which is only intended to provide recipients with assistance while moving into the workforce as quickly as possible. Unlike AFDC, it is not a needs-based system, but one making work more attractive than welfare while continuing to provide for the needs of children. The Governor's proposal requires recipients to work or participate in approved activities as a condition of eligibility for grants. In addition, the Governor's continuing efforts to reduce welfare fraud helps to ensure that only those in true need of assistance receive benefits.

- ◆ Consistent with federal law, the Governor's proposal establishes a cumulative state lifetime limit of five years on aid, including time on aid in other states. However, to emphasize the importance of moving into the workforce as quickly as possible, shorter time limits are proposed for each period of time on aid. Starting January 1, 1998, existing able-bodied recipients may

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REFORMING CALIFORNIA'S WELFARE SYSTEM

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only receive aid for 24-cumulative months during any 36-month period. New recipients will only be eligible for 12-cumulative months during any 24-month period.

- ◆ Recipients will be required to work or to participate in approved job training. Those not participating at required levels will receive a reduced grant, and those refusing to participate will not be eligible.
- ◆ Those who can avoid the need for public assistance through the provision of special needs services may receive such services at a county's option.
- ◆ For those receiving aid, grants will be based on family size according to the January 1, 1997 grant levels. However, all income disregards will be eliminated, and recipients will be allowed to keep a percentage of their earnings.
- ◆ As a further incentive to move into the workforce, grants will be reduced by 15 percent for any family with an able-bodied adult remaining on aid longer than six months.
- ◆ Federal law provides for hardship exemptions from the time limits. These exemptions will be provided to non-needy caretakers and families with a severely disabled parent or child.
- ◆ Full cooperation in all child support requirements will be expected as a condition of eligibility, and paternity must be established in order for the adult to be included in the grant. In addition, all child support collected will be passed to the custodial parent, and will reduce grants on a dollar-for-dollar basis as unearned income.
- ◆ The Governor's proposal includes a noncash safety net program for children. This safety net provides for children whose families have exhausted their time limits. The level of aid in this program is based on the number of children aided, with no adults included in the benefits.
- ◆ To further enhance the State's ongoing welfare fraud prevention efforts, the Governor's proposal establishes a "one strike and you're off" penalty for individuals found to have committed intentional fraud. This penalty results in permanent ineligibility for welfare benefits in California.
- ◆ Legal immigrants who arrived in the United States before August 22, 1996, will continue to be eligible for aid. Those arriving after that date are not eligible for aid for five years, consistent with federal law.

Mandatory Work Requirements

The Governor's redesign proposal is based on the premise that any job is better than no job. Work experience provides valuable job skills such as maintaining a schedule, organizing one's activities efficiently, working in a group and maintaining working relationships with coworkers. These skills provide a valuable basis for obtaining the kind of employment which allows a family to become self-sufficient. In addition, work experience reduces a family's dependence on public support, and, perhaps most importantly, provides a positive role model for children.

- ◆ One-parent families will be required to participate in work or approved job training for 32 hours per week. Two-parent families will be required to participate in these approved activities for 35 hours per week.
- ◆ Allowable activities include subsidized or unsubsidized employment, limited job club/job search activities, adult education, completion of high school or its equivalent (for teenage

parents), vocational employment training, job development, and community service, but limited to no more than six months.

- ◆ Non-needy caretakers, families with a severely disabled parent or child, or a single person with a child under 12 weeks old are exempt from work requirements.
- ◆ Resources in the California Community Colleges will be expanded. The California Community Colleges, along with the Employment Development Department and the Department of Education, will increase assistance to people moving from welfare to work. In order to receive state block grant funds, county plans will be required to demonstrate mechanisms for coordination at the local level among agencies funded through different sources.

Child Care

For many families now on welfare, work may not be possible without adequate child care. The provision of child care is a critical component of the Governor's proposal. Federal welfare reform changes child care by moving existing child care funding into a separate block grant and increasing the available level of support.

- ◆ Federal child care funds will be used for child care needs of individuals moving from welfare to work, as well as to help prevent individuals from going on aid. Funds will also be used to plan for expanded center-based care.
- ◆ The Departments of Education and Social Services, along with county welfare directors, are developing appropriate mechanisms to ensure that these needs are met and that adequate coordination between agencies is provided.

The provision of child care is a critical component of the Governor's proposal.

Budget Proposals

A significant fiscal change associated with welfare reform is the conversion of the current reimbursement system into a federal block grant to states. California will receive a block grant of \$3.7 billion. Another change is the establishment of a state maintenance-of-effort requirement. State and local governments combined must spend at least \$2.9 billion and comply with federal requirements to receive the full federal amount. If federal work participation requirements are met, state and local governments combined may decrease their spending level to \$2.7 billion and still receive the full federal funding amount.

In 1995, the base year the federal government used to calculate California's block grant amount, the State had higher welfare caseloads and expenditures than at present. As a result, the State will receive an additional \$334 million in federal funds in 1996-97 and \$486 million in 1997-98. This amount of federal funding is available under the block grant when compared to the amount that would have been available under the former AFDC program, assuming a "current law" base i.e., authorizations in current State law will be permanently enacted. The Governor's proposal includes various policy reforms and revisions resulting in additional net savings.

This additional federal funding, combined with savings from continuing and proposed State reforms, can be invested in welfare employment and training programs, held in reserve for future needs, transferred to other federal block grant programs such as Title XX social services, or taken as a savings against welfare expenditures. The Governor's Budget proposes a balanced approach to using the available savings:

REFORMING CALIFORNIA'S WELFARE SYSTEM

- ◆ \$79.6 million will be invested in employment programs and other services, including federally required work assessments, for recipients. This amount will assist the State in achieving its federal work activity participation targets in the coming year.
- ◆ \$60 million will be added to the GAIN Program in both 1996-97 and 1997-98. Additionally, the Budget proposes that any unspent 1996-97 GAIN funding be made available to counties in 1997-98.
- ◆ \$110.1 million will be used for discretionary program expenditures and changes required to comply with federal reforms, including: \$74.6 million to continue the monthly \$50 child support disregard with state funds only (including \$33.9 million in 1996-97); \$25.9 million for child support costs, and; \$9.6 million to provide eligibility for children discontinued from the Federal Supplemental Security Income Program.
- ◆ \$33.2 million will be used to comply with federal welfare reform reporting requirements by developing required computer case tracking and monitoring systems.
- ◆ \$79.4 million will be used for training of county welfare staff, since their role will change from eligibility determination to case management.
- ◆ \$140.9 million will be allocated to counties to replace federal emergency assistance funding, which counties could formerly claim for juvenile probation placement costs.
- ◆ \$274 million will be reduced from the program in 1996-97 and \$288.1 million in 1997-98, and made available for other high-priority General Fund needs. Additionally, \$60.6 million savings in 1996-97 and \$289 million savings in 1997-98 result from grant reductions and other statutory changes previously approved by the Legislature. The Budget assumes permanent continuation of the 4.9-percent statewide grant reduction, which would sunset October 31, 1997. Restoration of this grant reduction on November 1, 1997, would cost \$158.3 million in 1997-98.

LOCAL GOVERNMENT

PARTNERS IN CHANGE

The state and local governments share the responsibility of providing services to California's citizens. As the State redesigns its programs and reprioritizes its expenditures, the role and responsibility of local government must be at the forefront of the discussion.

Welfare Reform

As California confronts the historic challenge of welfare reform, the interdependence between the state and local governments has never been more evident.

While California's counties currently administer welfare programs on behalf of the State, they must now become active participants in designing programs at the local level that move recipients from welfare to work. Local officials are ideally situated to assess both the needs of their citizens and how best to meet those needs. Local governments must be given maximum flexibility to construct local programs that meet the new program's work requirements and self-sufficiency goals.

The Governor's welfare reform proposal is articulated in the chapter titled *Reforming California's Welfare System*. Under this proposal, the State will continue to set broad program guidelines in terms of eligibility, grant levels and time limits. The counties will receive a block grant to cover administrative and such program costs as one-time special needs, transportation, employment-related services and other support services such as mental health or drug and alcohol treatment.

Counties will receive both the needed flexibility to recast programs and, perhaps more importantly, 25 percent of the State's share of caseload reduction savings as an incentive to move people into the workforce. These savings will be reinvested in the county block grant to be used for additional services. Counties may find that contracting with the private sector, including community-based non profit organizations may be the most advantageous way to redesign programs. State law should not limit counties' ability to make necessary changes, but should hold counties responsible for meeting the necessary outcomes.

Our view of welfare reform should not be limited, however, to the State and counties. Change of this magnitude is the responsibility of all stakeholders and must be comprehensive in order to be successful. Cities play a key role because of their interests and efforts in attracting and creating jobs. In addition, cities often have strong community ties to private, nonprofit organizations

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LOCAL GOVERNMENT

which may be part of the local service delivery system to recipients as they move off assistance. Cities and redevelopment agencies are instrumental in providing low-income housing which may be part of a local benefit package. Community colleges provide vocational training, which for many is the path to self-sufficiency.

Welfare reform offers government and the private sector an opportunity to work together in a focused, concerted effort to change the paradigm of welfare. Local government will be an important force in any program redesign.

GENERAL ASSISTANCE

Consistent with the belief that local government must have maximum flexibility to assure program success, the Administration is proposing to eliminate the mandate contained in provisions of the Welfare and Institutions Code that requires counties to operate a specified cash grant General Assistance (GA) Program. This will allow counties to determine what kind of program may best suit its GA population, and will allow differentiation based on need. For example, a county might choose to have an entirely non-cash program for able-bodied adults, or a program that combines cash and service components such as drug and alcohol rehabilitation or mental health treatment. Again, the key is allowing a locally determined solution.

INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

California's long-term economic health and its ability to create jobs depends on adequate private and public investments in infrastructure. The Governor's Budget proposes a \$200 million General Obligation Bond Program for the capitalization of an Infrastructure Bank. As part of this proposal, the Administration will propose to consolidate administration financing authorities into one entity within the Trade and Commerce Agency. Consolidation of these authorities will eliminate duplication in decision making, and will create a "one-stop shop" for dealing with California's public and private infrastructure needs. The consolidated Bank will assist local governments in the financing of roadways, sewers, water mains and other critical infrastructure needs.

OTHER COUNTY ASSISTANCE

The Administration is cognizant of the concern among counties that resources are limited. In preparing this budget, and within the resources available, the Administration looked for ways to provide financial assistance to counties.

County Probation Funding. As of January 1, 1996, the federal government precluded states from claiming emergency assistance funding for juveniles on probation. Under the Emergency Assistance Program, states had been able to obtain 50-percent reimbursement from the federal government for the costs of short-term assistance and services for the purpose of alleviating emergency situations. The probation component of this funding had helped support juvenile halls, camps, ranches and after-care services. Counties received approximately \$140 million annually in federal funds for this program.

Emergency assistance funding for probation increased the value of the Temporary Assistance to Needy Families (TANF) block grant that the State receives under welfare reform. Because of this and the on-going need for placement options for probation, the Governor's Budget proposes that \$140.9 million of the block grant be allocated to the counties for their probation costs in 1997-98.

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The Budget also continues the \$33 million General Fund appropriation to help support county ranches.

Mental Health Funding. For the past several years, counties have been purchasing fewer beds in Department of Mental Health state hospitals. While the number of state clients has increased over the same time period, the counties have funded a disproportionate share of overhead costs. With the closure of Camarillo State Hospital and Developmental Center, the State reduced its Medi-Cal costs in the state hospital system. To prevent this cost from being shifted to the counties, the Governor's Budget includes a General Fund augmentation of \$9 million for hospital overhead costs.

Children's System of Care Program. This program provides mental health treatment, counseling, health care and social services to seriously emotionally disturbed children and their families. The program prevents the placement of these children into high-cost foster care group homes, state hospitals or juvenile correctional facilities, and has proven successful in reducing long-term costs in the delivery of services. The Governor's Budget proposes an augmentation of \$9.4 million General Fund to expand the Children's System of Care from 29 to 39 participating counties.

Citizens' Option for Public Safety (COPS). The Governor's Budget continues the \$100 million approved in the 1996 Budget Act for front-line public safety activities at the local level. No change is recommended in the allocation formula. Therefore, district attorneys will receive \$12.5 million, county sheriffs will receive \$12.5 million for the operation of local jails, and \$75 million will be distributed to cities and counties on a population basis.

Federal Crime Bill Funding. Up to 15 percent of a State's grant from the Violent Crime Control and Law Enforcement Act of 1994 may be used for construction of correctional facilities at the local level. A local cash match is required equal to ten percent of the federally eligible project cost. The Governor's Budget proposes to allocate the maximum amount allowable under the Federal Crime Bill to local governments. Therefore, 15 percent of the federal funds in 1997-98, or \$14.9 million, will be allocated through the Board of Corrections' local assistance budget. Over the full five years of the program, \$63 million will be allocated to local governments.

TRIAL COURT FUNDING

In the 1996-97 Governor's Budget, the Administration proposed a major restructuring of Trial Court funding. This proposal served two primary purposes—to provide long-term fiscal relief to counties, and to provide a stable and reliable source of funding for the Trial Courts which have experienced a dramatic increase in cases. This would have allowed the judiciary to plan and use resources on a statewide basis to ensure equal access to and the fair application of justice for all citizens. Notwithstanding the fact that the 1996 Budget Act reflected the proposal as negotiated by interested parties, the legislation necessary for its implementation (AB 2553) did not reach the Governor's desk.

The critical need for this proposal has not lessened. Therefore, the 1997-98 Governor's Budget assumes enactment of the following proposal effective July 1, 1997:

- ◆ Consolidation of Trial Court funding at the State, with the exception of costs for facilities, local judicial benefits, and revenue collection.
- ◆ Maintain the county contribution, including fine and penalty revenue, at the 1994-95 level of funding.

The Governor's Budget proposes to allocate the maximum amount allowable under the Federal Crime Bill to local governments.

- ◆ State assumption of future increases in Trial Court funding costs.
- ◆ Buy-out of the county general fund contribution for the smallest 20 counties (\$10.7 million).
- ◆ Increases in various civil fees (\$87.7 million).
- Failure to enact AB 2553 in 1996 created a \$290.5 million shortfall in funding for the Trial Courts. Absent the legislation, the fine and penalty revenue continues to be remitted to the State, but there is no appropriation to the courts for this amount. While the Governor's Budget assumes implementation of the restructuring component of the proposal by July 1, 1997, it is essential that funds be allocated to the courts as soon as possible so that services will not be impaired.
- The Administration is committed to working with all parties to determine the best mechanism for allocation as well as to resolve outstanding issues and concerns related to the restructuring proposal.
- The Governor's Budget proposes additional changes to Trial Court funding:
- New Judgeships.** In 1996-97, 21 new trial court judgeships were approved. These were the first judicial positions added since 1988. The Judicial Council has identified a priority need for 40 additional trial court judgeships. The Governor's Budget contains \$4 million to provide funding for these 40 positions assuming they will be effective January 1, 1998 and funded for one-quarter of the fiscal year. Judgeships will be proposed for those courts where workload justifies an increase, and priority will be given to coordinated courts and those that represent the best practices of case management.
- Court Security.** Due to increasing concerns about the potential for violence in the courtroom and the need to use civil courtrooms for criminal cases, the Governor's Budget proposes an increase of \$8 million for courtroom security costs. This is the first year of a three-year commitment to improve security in California's courtrooms.
- Jury Reform.** In its review of the California jury system, the Blue Ribbon Commission on Jury System Improvement identified lack of reimbursement for juror-related expenses as an impediment to increasing citizen participation in the jury process. The Budget includes \$14 million for half-year funding to address some of the important components identified in the Commission's report. These include:
 - ◆ Increasing juror mileage rate to 28 cents per mile one way for jurors traveling more than 50 miles one way (\$500,000).
 - ◆ Reimbursing juror parking expenses, based on legislation authorizing appropriate guidelines (\$3.5 million).
 - ◆ Reimbursing child care expenses, based on guidelines established by the Judicial Council as authorized in legislation. (\$3 million).
 - ◆ Reimbursing juror meal expenses beginning with the second day of service (\$7 million).
- The Judicial Council may pursue additional statutory changes that would not have a fiscal impact, but would also be appropriate for improving the jury system in California's courts.
- With these additional policy changes, the total funding for Trial Courts in 1997-98 will be \$1.661 billion.

PREVENTION AGENDA EXPANSION

The 1997-98 Governor's Budget continues the Governor's commitment to the prevention agenda, specifically those programs focused on children and families. These efforts include infant health protection, programs to prevent unwed and teenage pregnancy, expansion of protection for all Californians against tuberculosis and other infectious diseases, efforts to increase the number of family physicians serving California's families, and funding for domestic violence prevention and for a variety of preventive health and school-linked programs for children.

INFANT HEALTH AND PROTECTION INITIATIVE

The Infant Health and Protection Initiative (IHPI) will better protect children from abuse and neglect at the hands of substance-abusing parents. The IHPI is comprised of four components:

Drug Assessment Protocol/Intervention by Child Protective Services. As a condition of hospital licensing, all hospitals will now be required to comply with existing law requiring a drug assessment protocol to be applied at the time a child is born; families with demonstrable substance abuse identified by this protocol will be referred immediately to Child Protective Services (CPS) with CPS required to perform an immediate in-hospital response to assess the level of risk to the infant and take appropriate action to protect the infant's health and safety.

Uniform Child-Risk Assessment. A uniform statewide child risk assessment tool will be developed and county caseworkers will be trained in its use; use of a uniform risk assessment tool will help provide a more consistent approach in determining the risks of leaving a child in a potentially abusive environment.

Home-Visiting Pilot Project. Approximately 2,500 families identified by the drug screening protocol will be served through a three-year home visiting pilot program in five counties. This pilot program will combine substance abuse treatment with intensive parent support and in-home visitation services in an effort to produce outcomes that help ensure child safety and end family dysfunction.

Substance Abuse Treatment Funding Augmentation. Drug and alcohol treatment services will be expanded to meet additional prenatal service needs resulting from implementation of the statewide hospital drug assessment protocol.

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PREVENTION AGENDA EXPANSION

The Budget proposes an additional \$35 million (\$22.2 million General Fund) for the IHPI; \$23.5 million (\$17.2 General Fund) for the Department of Social Services to implement the pilot program and develop the risk assessment tool, and for increased costs resulting from additional referrals to CPS, the adoptions program, and the foster care system.

Additionally, the Budget for the Department of Alcohol and Drug Programs includes an increase of \$11.5 million (\$5 million General Fund, \$1.5 million in Medi-Cal federal reimbursements and \$5 million in Federal Substance Abuse Prevention and Treatment grants) for the Perinatal Treatment Expansion Program (PTEP) Initiative. The PTEP Initiative began with a base budget of \$25 million in 1991-92. The 1996-97 Budget for PTEP is \$41 million (\$22 million General Fund, \$3 million in Medi-Cal reimbursements, and \$16 million in federal funds). The proposed \$11.5 million augmentation will provide substance abuse treatment services to an estimated 11,100 pregnant and postpartum women residing in counties that do not participate in the IHPI pilot.

PARTNERSHIP FOR RESPONSIBLE PARENTING

The Governor's

Budget
includes an
additional
\$10 million
to expand
mentoring
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The Budget reflects the continuation of the Administration's commitment to preventing unwed and teenage pregnancy, and provides a total of \$60.4 million for the Governor's Partnership for Responsible Parenting.

Media Campaign. The Department of Health Services (DHS) will award a multi-year contract for the media campaign in January and the expanded campaign will begin this spring. The program is supported by \$13.25 million in 1996-97 and \$8.5 million in 1997-98.

Community Challenge Grants. The 10-member Community Challenge Grant Advisory Committee is operational, having now approved the \$20 million program's design, application review and statewide evaluation processes. In addition, DHS has completed the Request for Application process for the direct service grants and for the program evaluation contract. DHS has also conducted outreach and technical assistance efforts for grant applicants statewide and is announcing grant awards this month. Consistent with the enabling legislation, the Budget includes reappropriation authority to provide these grant recipients the same level of funding over the first 30-month phase of this innovative prevention program.

Mentoring of At-Risk Youth. Mentoring programs have been established in several departments to provide services to at-risk youth. The programs are designed to assist at-risk youth to become productive members of society while reducing juvenile crime, teen pregnancy, gang association, and the school dropout rate. The Governor's Budget includes an additional \$10 million to expand mentoring programs to \$20.6 million. The proposed expansions include:

- ◆ \$4 million General Fund within the Department of Community Services and Development. These funds will be granted to local community services organizations and existing local mentoring programs to recruit, train, and place mentors with at-risk youth. This augmentation will provide a total program of \$6 million (\$5 million General Fund and \$1 million federal funds) and will provide an estimated 37,500 at-risk youths with mentors.
- ◆ \$580,000 federal funds within the Department of Alcohol and Drug Programs above the 1996-97 base funding of \$500,000 federal funds. The augmentation will provide local mentoring program expansion and technical assistance to service providers. The Budget also provides an augmentation of \$170,000 in federal funds for support costs.

- ◆ \$5 million Proposition 98 funding added to the 1996-97 base of \$5 million for a total of \$10 million, which includes continued funding to 76 local education agencies plus expansion of the program to approximately 76 more local education agencies. This program, managed by the Office of Child Development and Education (OCDE), seeks to match at-risk children and youth with caring adult role models. One-to-one mentoring can provide positive guidance and result in improved school behavior and academic progress. To enable OCDE to effectively manage the proposed \$5 million program expansion, a \$200,000 augmentation for support operations is also provided from funds available from Federal Goals 2000 Funds.
- ◆ General Fund support provided for the "Young Men as Fathers Parenting/Mentoring Program", which provides mentoring to young fathers through county probation departments and for the Volunteers in the Parole Program, which matches parolees with attorney mentors, will continue at \$3 million and \$116,000, respectively.

Funding for these mentor programs is expected to increase local and corporate involvement with the eventual transition of the mentoring programs to the private sector by June 30, 1999.

Prosecution of Statutory Rape. The Governor's Budget continues \$8.4 million General Fund in 1997-98 to support prosecution of statutory rape. The objective of this program is to provide financial support for county district attorneys for vertical prosecution of adult males who, in violation of Penal Code Section 261.5, impregnate minor females. Vertical prosecution entails the assignment of a single deputy district attorney to handle all pretrial and trial phases of a criminal case. The Program was initiated in 1995-96 in 16 California counties and was expanded to 53 counties in 1996-97.

Male Responsibility. The Budget continues \$2.85 million for grants in the Male Responsibility Program. These intervention project grants provide information, education, and counseling services to local communities concerning the positive role adolescent and young men can have in preventing teen pregnancy.

OTHER PREVENTION INITIATIVES

Tuberculosis Control Program Expansion. In an effort to further protect the public from exposure to tuberculosis (TB), the Governor's Budget includes \$2.9 million General Fund to house TB patients who are unwilling to complete prescribed drug treatments or who are homeless and thus unable to complete their treatment. Recent studies indicate that homeless TB patients are more likely to fail in completing prescribed drug therapy because of their unstable housing situation. This leads to longer hospital visits because the patient develops resistance to the prescribed treatment, which also leads to increased incidence of secondary cases of this highly contagious disease. This Program will prevent secondary TB infections and will reduce inpatient hospital costs due to fewer and shorter inpatient treatment periods. Offsetting inpatient cost savings to the Medi-Cal Program will limit the net General Fund cost of this program to \$1.3 million.

Emerging Infectious Diseases. To protect the health of the public, the Governor's Budget provides \$3.4 million General Fund to expand investigations and surveillance of emerging infectious diseases. The incidence of new, re-emerging or drug-resistant infections is increasing in California, causing significant hospital costs and business losses. Emerging diseases include: *E Coli 0157:H7*, *Cyclospora*, Valley Fever, Group A *Streptococcus*, and a new subtype of HIV infection. Increased investigation and surveillance efforts will help control outbreaks and prevent the spread of these and other emerging infectious diseases.

PREVENTION AGENDA EXPANSION

The expanded program will increase the number of children receiving these immunizations from 1.4 million to 1.8 million in 1997-98.

Preventing Unintended Pregnancy. For 1997-98, the Budget reflects full implementation of the expanded service provider network begun in 1996-97. In order to serve the more than one million low-income men and women with family incomes up to 200 percent of the federal poverty level who are in need of contraceptive services, the Budget provides \$113.2 million (\$85.8 million General Fund) within the Medi-Cal Program. This funding includes \$46 million redirected from public health clinical services contracts which this service replaces.

Family Physician Training. Due to an identified shortfall in the number of family physicians needed to serve California families, an augmentation of \$2.3 million General Fund is provided to the Family Physician Training Program increasing the total program to \$5.2 million. This Program provides grants to medical schools and specialized training programs. Given the State's increased emphasis on funding health care through managed care models of service delivery, increased emphasis on training of family practice physicians is proposed. The augmentation will fund 25 family practice resident training positions and 24 nurse practitioner training positions.

Domestic Violence Prevention Initiative. Continuing the Administration's efforts to prevent domestic violence and to support its victims, the Budget continues \$2.5 million for up to 30 new local projects for shelter-based services and community intervention projects. These project grants began January 1, 1997, and will operate through June 30, 1999. The Budget also provides \$11.5 million for continuation of the existing Battered Women Shelter Program begun in 1994-95, which has dramatically increased access to housing and other shelter-based services for the victims of domestic violence.

Child Health Exams and Immunizations. The Child Health and Disability Prevention (CHDP) Program provides health assessments and immunizations to low-income children. The Budget includes \$15.3 million, funded by the Cigarette and Tobacco Products Surtax Fund and the General Fund, to significantly expand vaccine coverage in accordance with the age-range schedule recommended by the Federal Centers for Disease Control and the American Academy of Pediatrics. This expanded vaccine program is already provided under Medi-Cal and will provide CHDP immunizations for measles, mumps and rubella, hepatitis, chickenpox and other diseases to a wider age-range of children up to the age of 19. The expanded program will increase the number of children receiving these immunizations from 1.4 million to 1.8 million in 1997-98.

Childhood Lead Poisoning Prevention Program. To continue to protect California's children from the effects of lead poisoning, the Governor's Budget includes \$9.5 million General Fund to support the Childhood Lead Poisoning Prevention Program (CLPPP). CLPPP includes: prevention efforts, testing and abatement, and case management services for approximately 4,800 children with excessive blood lead levels. The need for General Fund support for this program results from a recent court decision, now on appeal. This decision found that the current fees which supported the program constituted a tax and were therefore invalid because they were not enacted with a two-thirds vote of the Legislature. This proposal would include legislation to reauthorize these fees as a special tax, with the necessary legislative support to address the court decision. The Budget also includes \$3.2 million (General Fund and Cigarette Tobacco Products Surtax Fund) to continue testing for excessive blood lead levels in children served by CHDP.

Healthy Start. The Governor's Budget proposes continuation of \$49 million for the Healthy Start Program. As part of the multi-phased Comprehensive Integrated School-Linked Services effort, Healthy Start coordinates and integrates health and social services for children at school sites. Approximately 80 three-year operational grants and 110 planning grants will be awarded in both 1996-97 and 1997-98; of those districts receiving grants, some receive only planning or operational grants and some receive both types of grants. In addition, 37 five-year grants have been awarded in 1996-97, 220 operational grants were awarded to 141 districts for programs in 650 schools, and 344 planning grants were awarded to 322 districts for programs in 916 schools.

Student Academic Partnership Program. This Program encourages partnerships between the K-12 and higher education segments. The Budget includes \$5 million for grants to hire college students to tutor elementary school pupils in approximately 100 elementary schools. The program will provide multiple benefits such as tutoring pupils in grades K-6, providing jobs for college students, and encouraging college students to become teachers.

Early Mental Health Initiative. Chapter 757, Statutes of 1991, established the school-based Early Mental Health Initiative (EMHI), under which grants are awarded to local education agencies (LEAs) to provide school-based services to children in grades K-3 who have behavioral or emotional difficulties which adversely impact their performance in school. EMHI provides children with services such as one-on-one interaction with a trained paraprofessional and structured play sessions which enhance their educational, social-emotional, and mental health development. Funding is provided for up to three years, after which LEAs are encouraged to continue the programs with local funding.

To date, approximately 434 programs have been funded at LEAs. Combined, these programs have served approximately 155,000 children. The 1996-97 Budget includes \$12 million in Proposition 98 funding for 214 school-based programs to serve an estimated 36,000 children. The 1997-98 Budget includes an additional \$3 million for establishment of 57 new programs which will serve an estimated 9,000 additional children. By making a child's school experience positive, EMHI mitigates the need for more costly social and mental health services as the child matures. The effectiveness of the EMHI is evidenced by the fact that approximately 65 percent of the LEAs that receive grants continue their programs after state EMHI grants have terminated.

Children's System of Care. The Children's System of Care (CSOC) Program provides a variety of intensive services including mental health treatment, counseling, educational, health care and social services to seriously emotionally disturbed (SED) children and their families through an interdisciplinary team of service professionals. The CSOC Program is designed to prevent the placement of SED children into high-cost foster care group homes, state hospitals, or juvenile correctional facilities. The 1996-97 Budget contains \$17.5 million General Fund for 26 counties (three additional counties are funded entirely from federal funds). The 1997-98 Budget proposes an additional \$9.4 General Fund to fund ten additional counties.

RESOURCES & ENVIRONMENTAL QUALITY

Since the Governor's 1991 introduction of "Resourceful California"—a far-reaching plan for the conservation of California's vast natural and cultural resources—the Administration has instituted a series of innovative policies across California, and a stewardship ethic grounded in cooperative natural resources protection and ecosystem management. Moving away from the piecemeal approach, the State is working with the public, private, and nonprofit sectors to protect natural resources and address the needs of habitats and species by integrating environmental, economic, and social objectives.

Several specific policy initiatives—including the Natural Community Conservation Planning Program and the unprecedented state-federal effort now known as the CALFED Bay-Delta Program—embody these policies and demonstrate California's continuing leadership in an era when states are expected to assume greater responsibility for the effective management of natural and cultural resources within their boundaries. Among the principal accomplishments of the Administration's resources agenda since 1991 are:

- ◆ The application of the Natural Community Conservation Planning (NCCP) Program, which is facilitating comprehensive habitat planning over hundreds of thousands of acres of Southern California as an alternative to the reactive, single-species approach of the State and Federal Endangered Species Acts.
- ◆ Proposition 204, the \$995 million bond measure that will greatly enhance the ecological health of the San Francisco Bay/Sacramento-San Joaquin Delta (Bay-Delta) Ecosystem. This is a major component of the Governor's State Water Policy, the first such framework for California in over 25 years.
- ◆ Creation of the California Environmental Resources Evaluation System (CERES; <http://ceres.ca.gov>), a comprehensive environmental web site on California's natural resources, the Land Use Planning Information Network (LUPIN; <http://ceres.ca.gov/planning/>), and other on-line resources.
- ◆ Implementation of the Governor's comprehensive State Wetlands Policy, which has resulted in a 15-percent increase in the quantity of permanent protected wetlands habitat in California and significant regulatory streamlining.

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RESOURCES & ENVIRONMENTAL QUALITY

*In order to fulfill
the vision of
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passing the
Coastal Act ...
the Governor's
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Initiative.*

- ◆ Acquisition, enhancement, and restoration of more than 12,000 acres of threatened habitat along California rivers and streams.
- ◆ Promulgation of comprehensive timber harvest regulations, which provide for long-term sustained yield forestry and unprecedented watershed protection of California's forests, producing both jobs and improved environmental protection.
- ◆ Strong advocacy for reform of the California Endangered Species Act consistent with the experience of the NCCP, with an emphasis on integrated multiple-species and habitat planning and of the California Environmental Quality Act, favoring the elimination of redundancies and greater reliance on comprehensive environmental reviews.
- ◆ Increased support for the California Conservation Corps, resulting in the addition of 40 percent more corpsmembers from 1994-95 to 1997-98, with a goal of increasing corpsmembers in the program by 50 percent by the year 2000.
- ◆ Increased protection of California's cultural resources, including establishment of the California Register of Historic Places and the California Heritage Fund.

For 1997-98, the major policy initiatives proposed by the Administration that expand on these achievements and that advance the Governor's vision of cooperative, integrated natural resources management are:

- ◆ Coastal Initiative
- ◆ Watershed Initiative
- ◆ Natural Community Conservation Planning
- ◆ Implementation of Proposition 204
- ◆ Protection of the Headwaters Forest

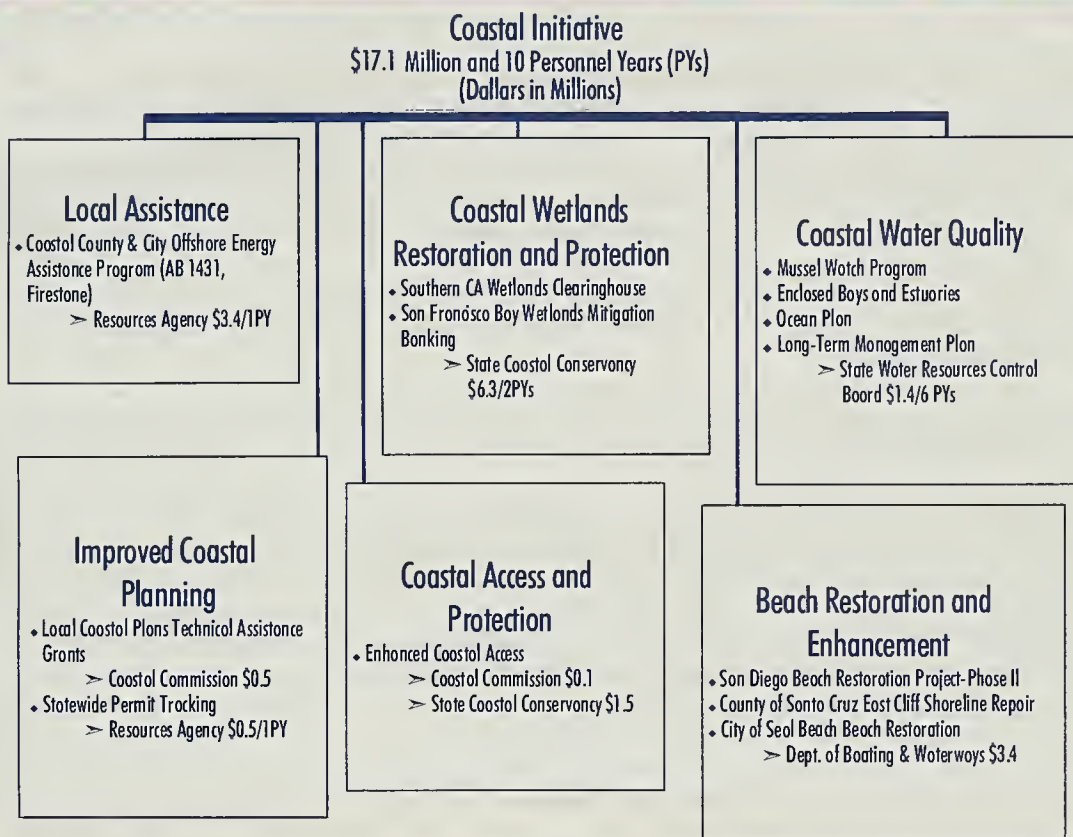
COASTAL INITIATIVE

In 1976, the people of California enacted the most comprehensive coastal protection program in the nation. Yet, the past quarter century of heightened concern for coastal protection has yielded incomplete and fragmentary protection of the coast. State land use entities such as the California Coastal Commission and the San Francisco Bay Conservation and Development Commission have made major contributions to conservation within their jurisdictions, but important elements of their missions remain unfulfilled. Some counties and cities have failed to adopt Local Coastal Plans, as envisioned under the Coastal Act. Opportunities to increase coastal access at key locations along the coast have not been realized.

In order to fulfill the vision of the people of California in passing the Coastal Act and in otherwise improving coastal resources, the Governor's Budget proposes a Coastal Initiative. This consists of policies and funding proposals that will provide for improved public access to the coast, enhanced wetlands conservation in the San Francisco Bay Area and in Southern California, more accountable local decision making on coastal matters, and expanded utilization of state-of-the-art information technology in coastal planning and management. Each element of this proposal has been identified by the California Coastal Commission as essential to the successful achievement of its mission.

The composition of the Governor's Coastal Initiative follows (see Figure A):

FIGURE A



Coastal Access and Protection

- ◆ \$1.6 million (\$1.5 million for the State Coastal Conservancy and \$100,000 for the Coastal Commission) for an enhanced coastal access program, including the acquisition of expiring rights-of-way for public access to the coast and a plan for completion of the Coastal Trail.

Coastal Wetlands Restoration and Protection

Since 1993, the acreage of protected wetlands has been increased by approximately 15 percent. Most of that increase has occurred in the Central Valley and in the San Francisco Bay region, and has been possible in part because of the use of innovative management tools. The protection of coastal wetlands remains a high Administration priority. As part of his Coastal Initiative, the Governor proposes:

- ◆ \$5.75 million for the establishment of a Southern California Wetlands Restoration Clearinghouse, which will be administered by the State Coastal Conservancy in cooperation with other public entities. This unique conservation instrument will allow state, local, and federal wildlife authorities to designate and pursue regional priorities for acquisition,

RESOURCES & ENVIRONMENTAL QUALITY

restoration, and enhancement of the approximately 40 sites of coastal wetlands in Southern California. The clearinghouse will further streamline the regulatory environment to enhance the State's economic climate while improving habitat benefits through the use of mitigation credits.

- ◆ \$509,000 to develop a regional wetlands mitigation bank in the San Francisco Bay area. This innovation will allow for timely mitigation of small development projects while also improving habitat benefits by focusing funding on larger, ecologically preferable habitat areas.

Coastal Water Quality

- ◆ \$300,000 for the State Water Resources Control Board's Mussel Watch Program, which provides an "early warning" system for detecting water quality and aquatic ecosystem degradation problems in coastal areas.
- ◆ \$450,000 for the State Water Resources Control Board to update water quality standards for enclosed bays and estuaries in the coastal areas.
- ◆ \$500,000 for the State Water Resource Control Board to update the California Ocean Plan, which contains numerical standards for toxic chemicals, bacteria, physical waste characteristics and toxicity, as well as narrative standards for protection of aquatic life.
- ◆ \$150,000 for the State Water Resources Control Board to continue development of the Long-Term Management Plan Strategy for dredging and disposal of dredged materials in the San Francisco Bay region.

Improved Coastal Planning

- ◆ \$500,000 for the Coastal Commission for technical assistance to local entities for the completion of the remaining local coastal plans, a key element of the Coastal Act of 1976.
- ◆ \$500,000 through the Resource Agency to the Coastal Commission to revise and improve its information systems and to implement a statewide permit tracking system. These funds are necessary in order to increase the resource-tracking capabilities of the Coastal Commission, to integrate Commission information resources with those of CERES, and to increase public access to information and data about the California coast.

Beach Restoration and Enhancement

The Department of Boating and Waterways will undertake several specific projects to restore and protect California beaches. The Governor's Budget proposes:

- ◆ \$1.65 million for the second phase of the North County beach nourishment project of the San Diego Association of Governments (SANDAG). The project is being carried out cooperatively with the United States Navy's Carrier Homeporting Project.
- ◆ \$960,000 to repair 400 feet of East Cliff in Santa Cruz County. These coastal cliffs have been damaged by shoreline erosion. Roadway and underground utilities will be restored.



- ◆ \$813,000 for the widening of East Beach in Seal Beach, Orange County. Beach facilities—including restrooms, picnic areas, a lifeguard safety complex, and underground utilities—are currently threatened with coastal flooding because the beach is no longer wide enough to provide protection.

Local Assistance

- ◆ \$3.4 million for the Resources Agency for technical assistance and financial assistance grants to local coastal governments for various coastal planning and protection activities, pursuant to Chapter 997, Statutes of 1996 (Ch. 977/96).

WATERSHED INITIATIVE

Through the NCCP Program, the Governor's State Water Policy, Wetlands Policy, and other programs, the Administration has demonstrated the importance of ecosystem management as a means by which to achieve sustainable development. Evolution from time-consuming, costly, and burdensome project-by-project and species-by-species reviews to watershed-oriented environmental assessments can save time and money for landowners, local governments, and the State.

The Governor's Watershed Initiative is designed to build on California's experience with ecosystem management by expanding this work to key watersheds of the State, including forests and rangeland subject to regulation by the Department of Forestry and Fire Protection under the Forest Practice Act. Because this habitat supports the Coho Salmon and other diminished stocks of salmon, more effective watershed management will facilitate recovery of these species. The initiative has been designed in close cooperation between the Departments of Forestry and Fire Protection (CDF), Fish and Game (DFG) and Conservation as well as the California Environmental Protection Agency and the State Water Resources Control Board (SWRCB) (see Figure B).

At present, CDF and other agencies conduct varying levels of watershed assessments to meet cumulative impact assessment requirements in Timber Harvest Plans, identify watershed and wildlife constraints in Sustained Yield Plans, and determine listed species needs in Habitat Conservation Plans. At the local level, resource conservation districts and others are engaged in similar work.

The Governor's Watershed Initiative seeks comprehensive, watershed-specific prescriptions that can be used by state and federal regulatory agencies to mitigate the effects of adverse environmental impacts. The initiative relies on prompt, but thorough, watershed and wildlife assessments. Priority can then be given to management practices that meet the needs of targeted watersheds.

Programmatic review facilitates the development of watershed-wide plans that consider environmental dynamics that are rarely captured under conventional review. Project-specific analysis focuses only on impacts to the environment caused by a single project, not the broader issues of watershed. Endangered and threatened species, for example, can never be saved by a single mitigation plan, nor are they likely to respond to a series of project mitigation plans taken together. Instead, a habitat-wide plan is needed to protect species and prevent their depletion.

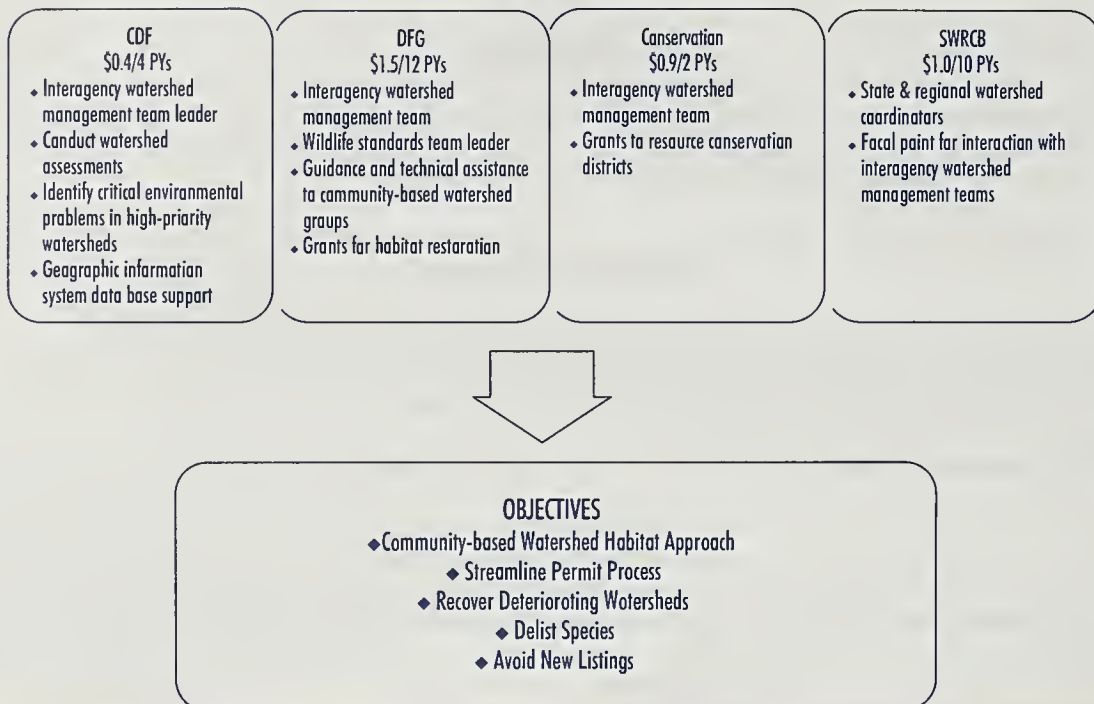
In 1994, the Board of Forestry's Wildlife Science Committee recommended the establishment of teams to develop regional standards for the protection of species and habitats, recognizing that individual watershed assessments may be inadequate for terrestrial species with wide-ranging habitat.

The Governor's Watershed Initiative is designed to build on California's experience with ecosystem management....



FIGURE B

Watershed Initiative \$3.8 Million and 28 Personnel Years (PYs) (Dollars in Millions)



The NCCP is California's—and arguably the nation's—foremost example of a new generation of natural resource conservation policies....

The Governor's Watershed Initiative proposes to implement this recommendation by expanding the capacity of participating agencies and with technical experts from other state and federal agencies, universities, private firms, and nongovernmental organizations, including community-based watershed groups.

NATURAL COMMUNITY CONSERVATION PLANNING (NCCP) PROGRAM

The NCCP is California's—and arguably the nation's—foremost example of a new generation of natural resource conservation policies that have, at their heart, a focus on habitat and ecosystem management.

Begun in 1991, the NCCP is designed to anticipate and prevent the controversies and regulatory gridlock caused by the traditional single-species approach to wildlife conservation embodied in state and federal law, and to substitute it for the long-term stability of complete ecological systems. The goal of the program is to protect sufficient acreage in regional preserves to assure survival of the ecosystem and, at the same time, permit compatible uses of less sensitive land.

The initial application of the NCCP Program is occurring in the coastal sage scrub, a much-degraded habitat scattered over more than 6,000 square miles encompassing large parts of Southern California. In the past year, the counties of San Diego, Orange, Riverside, and San Bernardino, in conjunction with some two dozen cities in those counties, other local governments,

state and federal agencies, and private landowners, have made significant progress on or completed species and habitat conservation plans covering well over one million acres. These plans include over 200,000 acres to be permanently preserved for habitat.

The planning for and the implementation of the NCCP plans in Southern California will continue for years. Work in the future will build on the solid foundation of the past five years. For that purpose, the Governor's Budget proposes these augmentations for the NCCP effort:

- ◆ \$6.4 million to the Wildlife Conservation Board for the acquisition of coastal sage scrub and other habitat, consistent with approved and future NCCP plans in Southern California.
- ◆ \$5 million to the Coastal Conservancy for the acquisition and restoration of coastal wetland and watershed habitat in association with the Multiple Species Conservation Plan and the NCCP Programs in San Diego County.
- ◆ \$1.6 million to the Department of Fish and Game for assistance to local governments in their establishment and implementation of local NCCP plans.

IMPLEMENTATION OF PROPOSITION 204

In November 1996, Californians approved Proposition 204, a \$995 million bond measure that represents a major milestone in the restoration of the San Francisco Bay/Sacramento-San Joaquin Delta Estuary and in the success of the Administration's State Water Policy. A balanced and sensible approach to meeting California's water needs, Proposition 204—the "Safe, Clean, Reliable Water Supply Act"—will provide adequate supplies of water at reasonable costs for agriculture, urban populations and industrial needs, and the protection of California's key aquatic ecosystems.

Bay-Delta Accord

The comprehensive Bay-Delta restoration to be funded by Proposition 204, future federal appropriations, and other sources is a major component of the historic Bay-Delta Accord signed by the Governor and federal representatives in 1994. The Bay-Delta Accord created the CALFED Bay-Delta Program, an unprecedented state-federal partnership that is committed to the most significant ecosystem restoration effort in the United States.

The CALFED Bay-Delta Program is a three-phase effort through which a long-term solution to the management of the Bay-Delta Estuary will be developed and implemented. The Program's two-year-long second phase is under way, during which the Program will assess and select one of three broad options for management of the Bay-Delta ecosystem. The third phase of the Program, beginning in 1998, will entail implementation of the preferred option.

The \$995 million of Proposition 204 is allocated for the following purposes (see Figure C):

- ◆ \$390 million to the Resources Agency for Bay-Delta ecosystem restoration as defined by the CALFED Bay-Delta Program.
- ◆ \$225 million to the State Water Resources Control Board for the Clean Water and Water Recycling Programs to improve water quality and promote water recycling and reuse.

Proposition 204, a \$995 million bond measure that represents a major milestone in the restoration of the San Francisco Bay/Sacramento-San Joaquin Delta Estuary....

RESOURCES & ENVIRONMENTAL QUALITY

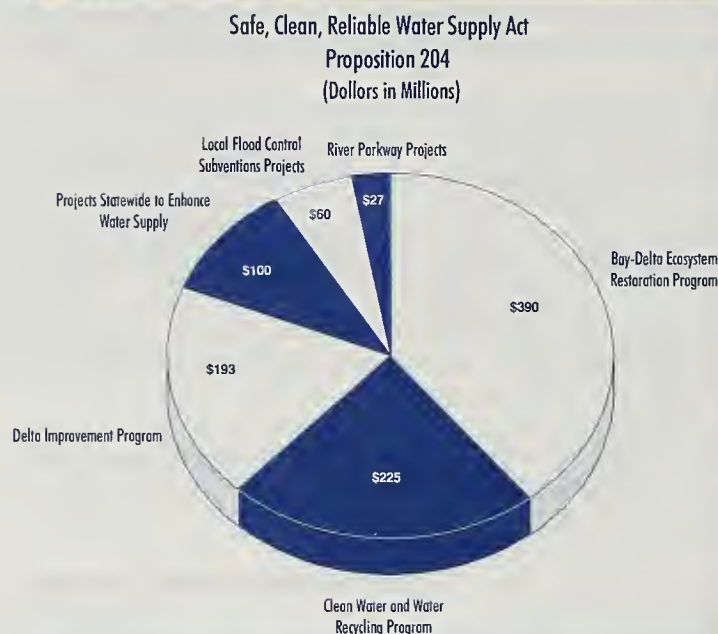
- ◆ \$193 million to the Resources Agency and the Departments of Water Resources, Fish and Game, and Parks and Recreation for the Delta Improvement Program in the Bay-Delta watershed.

- ◆ \$100 million to the Department of Water Resources and the California Tahoe Conservancy for statewide projects that enhance water supplies and improve water management and demand management, including \$10 million for Lake Tahoe.

- ◆ \$60 million to the Department of Water Resources for flood control and prevention.

- ◆ \$27 million to the Wildlife Conservation Board, the State Coastal Conservancy, the Santa Monica Mountains Conservancy, the San Joaquin River Conservancy, and the Department of Water Resources for the creation of river parkways for, among other things, habitat improvements and recreational use.

FIGURE C



Other Allocations of Proposition 204

In 1997-98, the Department of Water Resources will apportion \$95.3 million of the \$995 million total in the following categories:

◆ The Central Valley Project Improvement Act	\$24.0	million
◆ Flood Control and Prevention	\$18.0	million
◆ Local Projects	\$16.7	million
◆ Sacramento Valley Water Management	\$15.7	million
◆ Water Conservation/Groundwater Recharge	\$ 7.5	million
◆ Delta Levee Rehabilitation	\$ 6.0	million
◆ Feasibility Studies	\$ 5.0	million
◆ CALFED Bay-Delta Program	\$ 1.8	million
◆ South Delta Barriers Program	\$ 0.6	million

Proposition 204 also provides a total of \$27 million in 1997-98 to assist localities across California in the creation of river parkways for habitat improvements, recreational use, and other purposes. Regional entities will receive this funding through various state entities for parkway development on the Los Angeles, Napa, Russian, San Jacinto, Sacramento, San Joaquin, and other rivers.

Of the \$225 million available to the State Water Resources Control Board, the Board plans to spend \$55.2 million in 1997-98 for the following categories:

◆ State Revolving Fund Loan Program	\$15.4 million
◆ Small Communities Grant Program	\$ 6.4 million
◆ Water Recycling Program	\$15.1 million
◆ Drainage Management Program	\$ 6.1 million
◆ Delta Tributary Watershed Program	\$ 9.2 million
◆ Seawater Intrusion Control Program	\$ 3 million

Future Federal Funding

In October 1996, the 1997 Omnibus Appropriations Act was signed into law authorizing a total of \$429 million over three years for solving the environmental and water supply problems in the Bay-Delta. Congress and federal representatives have agreed to three annual authorizations of \$143 million each beginning in Federal Fiscal Year 1998, as a partial federal match to Proposition 204 as called for in the Bay-Delta Accord.

PROTECTION OF THE HEADWATERS FOREST

In September 1996, the Administration, federal government, and Pacific Lumber Company forged an historic agreement in principle to acquire and permanently protect the ancient Headwaters Forest in Humboldt County. This has long been a goal of the Governor's "Resourceful California Initiative." The elements of the complex agreement include:

- ◆ A total of approximately 7,500 acres of virgin and second-generation old-growth redwoods will be acquired and protected permanently by the state and federal governments. The new Headwaters preserve will include the approximately 3,200-acre Headwaters Forest, an approximately 2,400-acre buffer area around the Headwaters Forest, and the 425-acre ancient redwood Elk Head Springs Forest.
- ◆ Pacific Lumber and the Elk River Timber Company will receive a total of \$380 million in land and assets from the federal government (\$250 million) and the State (\$130 million).
- ◆ Pacific Lumber will not conduct any logging operations—including the removal of dead and dying trees—in the areas designated to be conveyed to the public under the agreement.
- ◆ For all of its approximately 190,000 acres of remaining forest land, Pacific Lumber will:
 - (1) submit to and receive approval from federal authorities of a Habitat Conservation Plan, and
 - (2) submit and receive approval from the State of California of a Sustained Yield Plan.
- ◆ Pacific Lumber will withdraw all pending lawsuits against the state and federal governments over alleged "takings" of Pacific Lumber land.
- ◆ All elements of the agreement will fully comply with the National Environmental Policy Act and the California Environmental Quality Act.

In December 1996, the Resources Agency submitted to Pacific Lumber Company a list of state properties that are intended to be exchanged for the Headwaters Forest consistent with the agreement. The total value of the properties exceeds \$200 million. Pacific Lumber Company is to identify those assets in which it has an interest and to agree with the State on the appropriate value. Failing agreement on the assets of sufficient value to meet the State's obligation, cash would be required to complete the transaction.

In September 1996, the Administration, federal government, and Pacific Lumber Company forged an historic agreement in principle to acquire and permanently protect the ancient Headwaters Forest in Humboldt County.



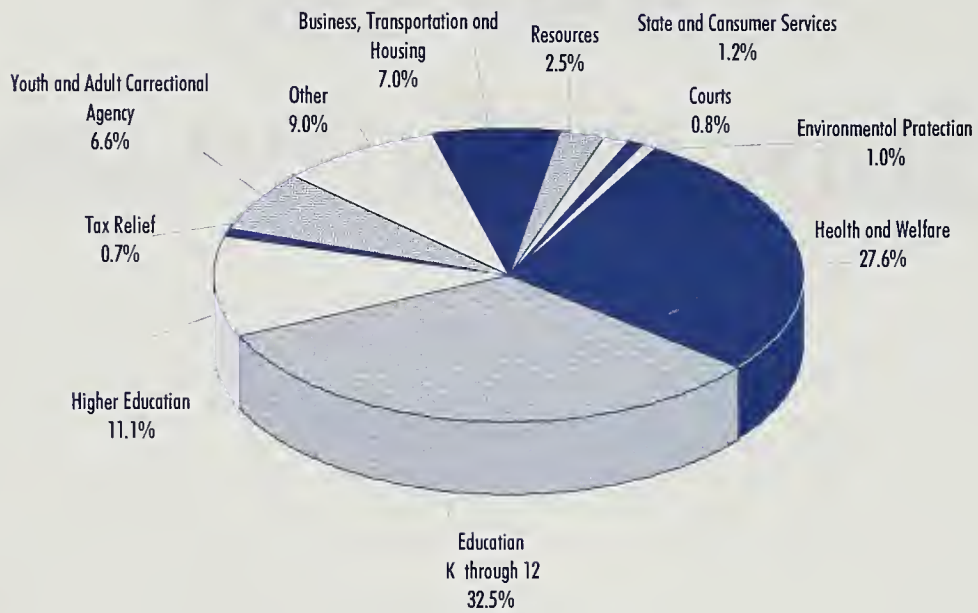


1997-98 BUDGET SUMMARY

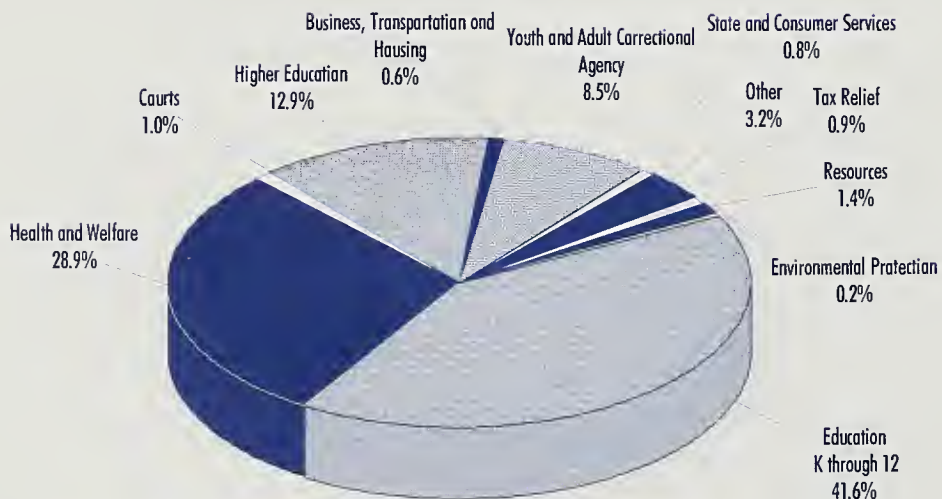
EXPENDITURES

1997-98 FISCAL YEAR

Total Expenditures (Excluding Selected Bond Funds)



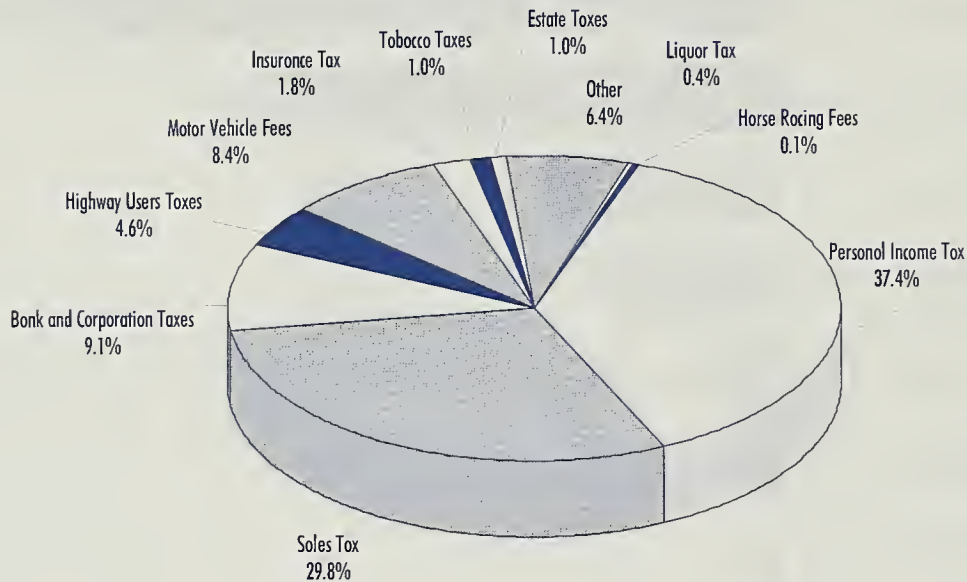
General Fund Expenditures



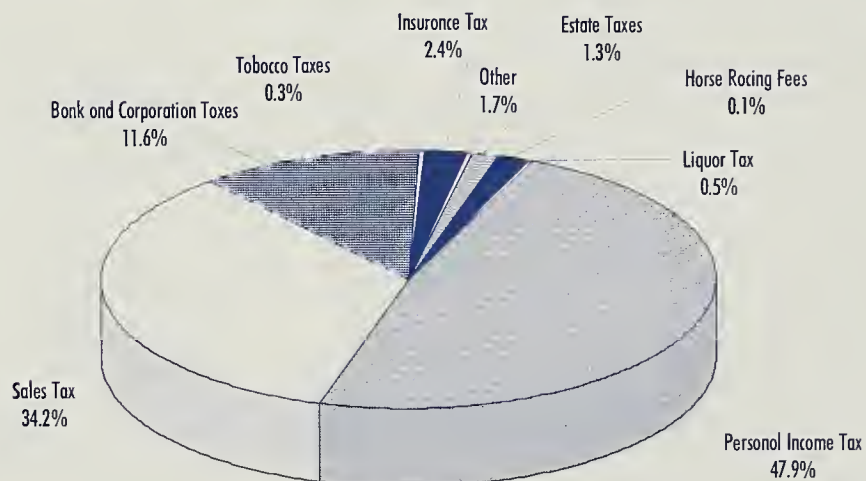
REVENUES

1997-98 FISCAL YEAR

Total Revenues and Transfers

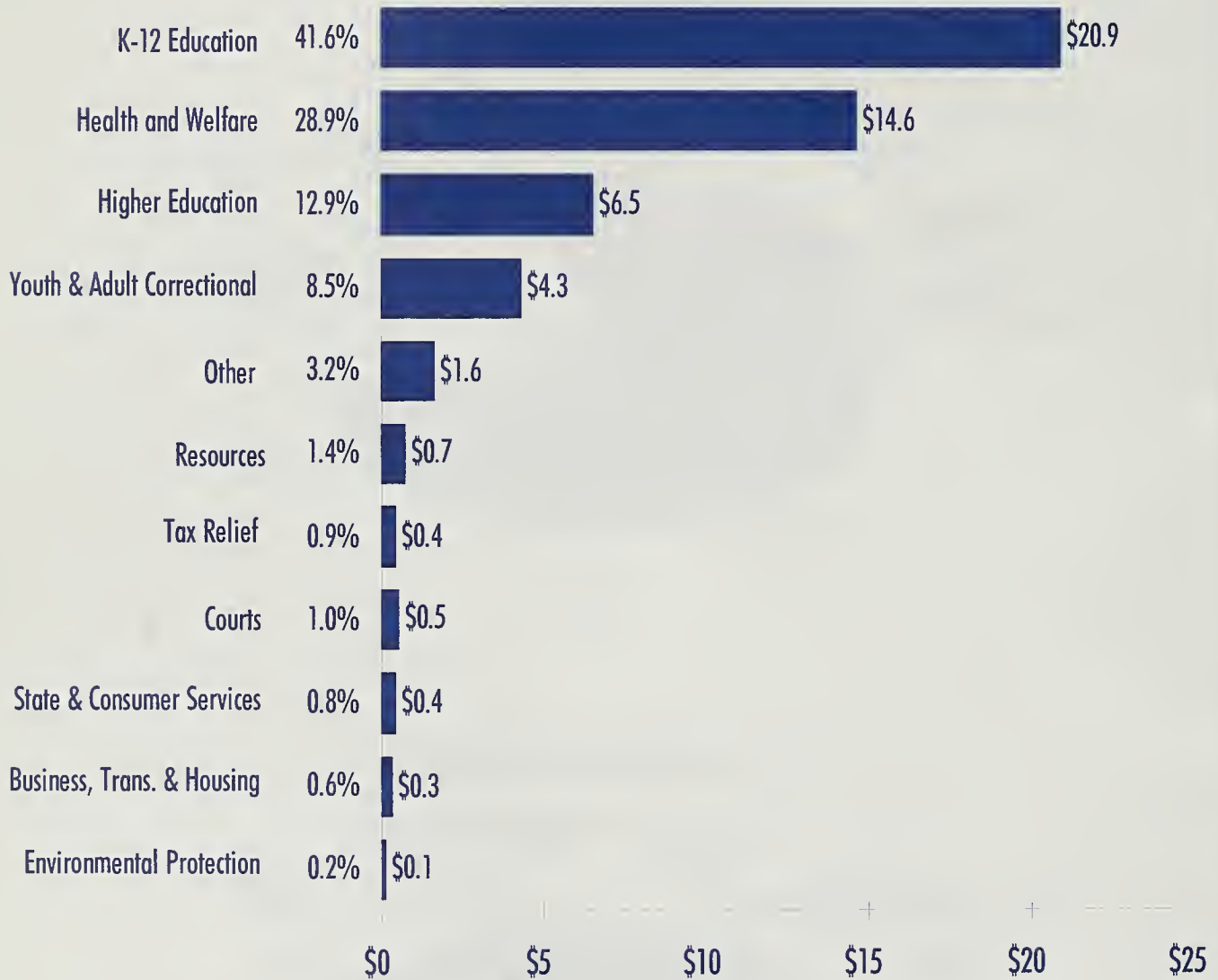


General Fund Revenues and Transfers



GENERAL FUND EXPENDITURES

(Dollars in Billions)



1997-98 REVENUE SOURCES**(Dollars in Millions)**

	General Fund	Special Fund
Personal Income Tax	\$24,240	--
Sales Tax	17,325	\$1,962
Bond and Corporation Tax	5,860	--
Highway Users Taxes	--	2,946
Motor Vehicle Fees	37	5,430
Insurance Tax	1,196	--
Estate Taxes	655	--
Liquor Tax	262	--
Tobacco Taxes	169	487
Horseracing Fees	37	37
Other	876	3,213
Total	\$50,657	\$14,075

1997-98 EXPENDITURES BY FUND**(Dollars in Millions)**

Fund	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$20,936	\$58	\$135	\$21,129
Health and Welfare	14,537	3,320	--	17,857
Higher Education	6,494	657	487	7,638
Business, Transportation and Housing	289	4,204	1,014	5,507
Trade and Commerce	46	15	--	61
Courts	498	--	--	498
Tax Relief	476	--	--	476
Local Government Subventions	110	3,622	--	3,732
Youth and Adult Corrections	4,257	10	21	4,288
Resources	716	897	198	1,811
Environmental Protection	122	542	90	754
State and Consumer Services	380	391	48	819
Other	1,440	627	1	2,068
Total	\$50,301	\$14,343	\$1,994	\$66,638

**1997-98 GOVERNOR'S BUDGET
GENERAL FUND
REVENUES AND EXPENDITURES**

(Dollars in Billions)

	<u>Revenues</u>	<u>Expenditures</u>
1991-92	\$42.0	\$43.3
1992-93	\$40.9	\$40.9
1993-94	\$40.0	\$39.0
1994-95	\$42.7	\$42.0
1995-96	\$46.3	\$45.4
1996-97	\$48.4	\$48.4
1997-98	\$50.7	\$50.3

**1997-98 GOVERNOR'S BUDGET
GENERAL FUND
BUDGET SUMMARY**

(Dollars in Millions)

	<u>1996-97</u>	<u>1997-98</u>
Beginning Resources	\$685	\$648
Revenues and Transfers	<u>\$48,406</u>	<u>\$50,657</u>
Total Resources	\$49,091	\$51,305
Expenditures	<u>\$48,443</u>	<u>\$50,301</u>
Fund Balance	<u>\$648</u>	<u>\$1,004</u>
Special Fund for Economic Uncertainties	\$197	\$553
Reserve for Liquidation of Encumbrances	\$451	\$451

ECONOMIC OUTLOOK

THE NATIONAL ECONOMY

The U.S. economy continued to grow at a moderate, albeit uneven, pace in 1996 and prospects for the next two years offer more of the same. On an annual average basis, 1996 real gross domestic product (GDP) growth is estimated at 2.3 percent. The next two years are expected to average 2.4 percent growth. Inflation, as measured by the broad GDP chain-weighted price index, was a modest 2.1 percent last year. The period ahead may see some deterioration in the outlook for prices, but inflation of 2.6 percent this year and around 3 percent in 1998 is still quite low by the standards of the last quarter century.

A Leisurely Pace. The current economic expansion will pass the six-year mark in April, a ripe old age as business cycles go. In large measure, this upswing owes its longevity—and the prospect of more to come—to the very moderate, even leisurely, pace of economic growth of the last several years. Indeed, compared to the previous two long expansions—in the 1960s and the 1980s—the current upturn has seen less than half the growth of its predecessors.

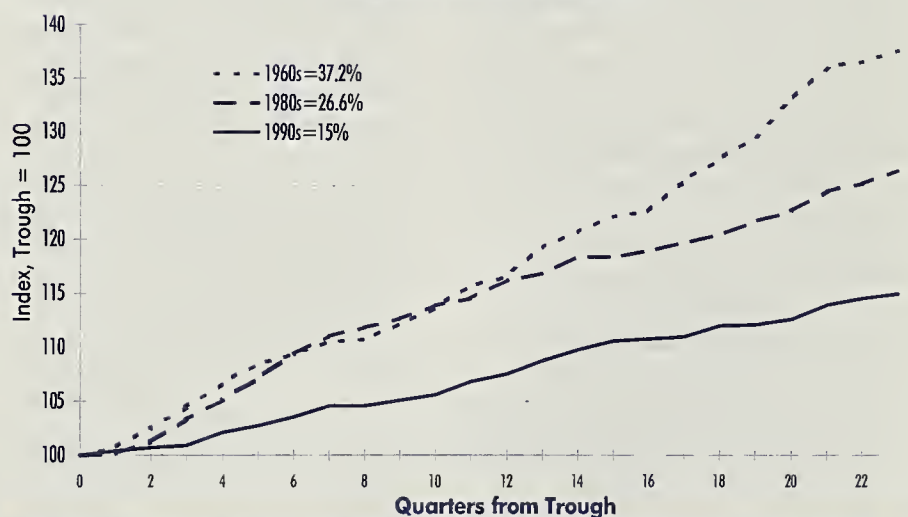
After 23 quarters, the 1980s advance had taken the economy up 26.6 percent from the third quarter 1982 low point. In the 1960s, with a considerable boost from the Vietnam War, growth over the similar period amounted to more than 37 percent. The average for the two previous long expansions was just under 32 percent after 23 quarters of growth. By contrast, the last five and three-quarter years have seen cumu-

lative economic growth of only 15 percent. (see Figure ECON-1)

As a result of this moderate pace, the current upswing has unfolded with few of the imbalances and excesses which in the past have led to economic reversals. There are, however, a few signs of concern. Household debt, for example, is at an all-time high as a proportion of personal income. Low unemployment may be

FIGURE ECON-1

U.S. Economic Growth in Long Expansions
Cumulative Increase in Real GDP



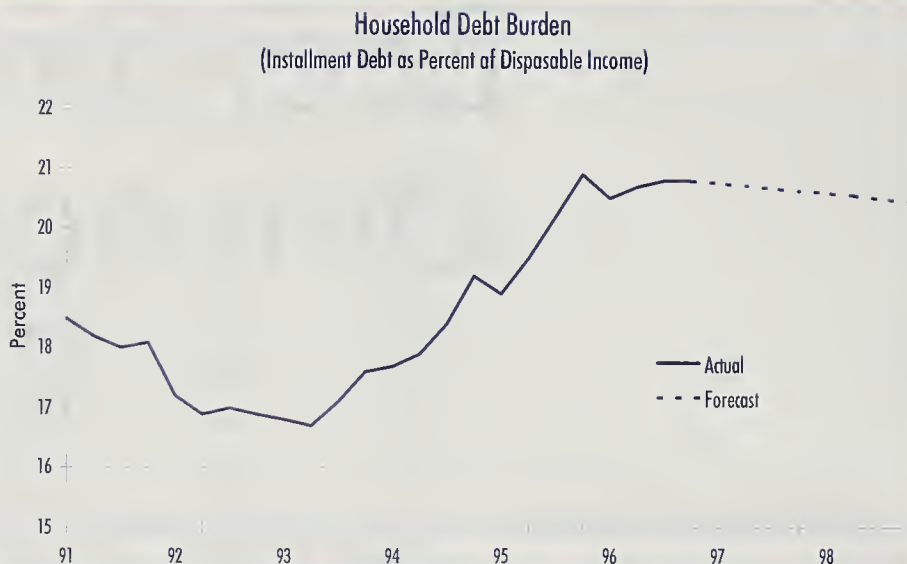
placing upward pressure on wages and, ultimately, prices. And last autumn's run-up in share prices has raised concern in some quarters, notably at the Federal Reserve.

Fortunately, none of these elements seems sufficient to derail the expansion, although some may slow it down. The high-debt burden appears to be correcting itself—last September saw a rare net paydown of installment debt followed by growth of less than 1 percent in October. (see Figure ECON-2)

On the inflation front, there is an unmistakable uptick in wages. In November, hourly earnings were up 3½ percent over the year-earlier level, reflecting not only tight labor markets but also the legislated hike in the national minimum wage. Still, the overall rise in compensation costs remains under three percent, thanks to continued moderation in benefit costs, mainly for medical care. At the same time, most commodity prices—oil is the notable exception—are falling, including industrial materials such as aluminum, scrap steel and copper, and also basic foods including wheat, corn, and soybeans, following near-record North American harvests in 1996. A strong dollar is also helping to keep a lid on prices. For example, attempts by U.S. automakers to push through even modest price hikes have been frustrated by outright price cuts from several Japanese manufacturers.

Even the stock market, when properly evaluated, is probably not too far out of line with the fundamentals. The market may seem high by conventional measures—the dividend yield, for example, is near an all-time low—leading some to conclude that share prices are too high. The problem is that corporate dividends have not kept pace with earnings growth.

FIGURE ECON-2



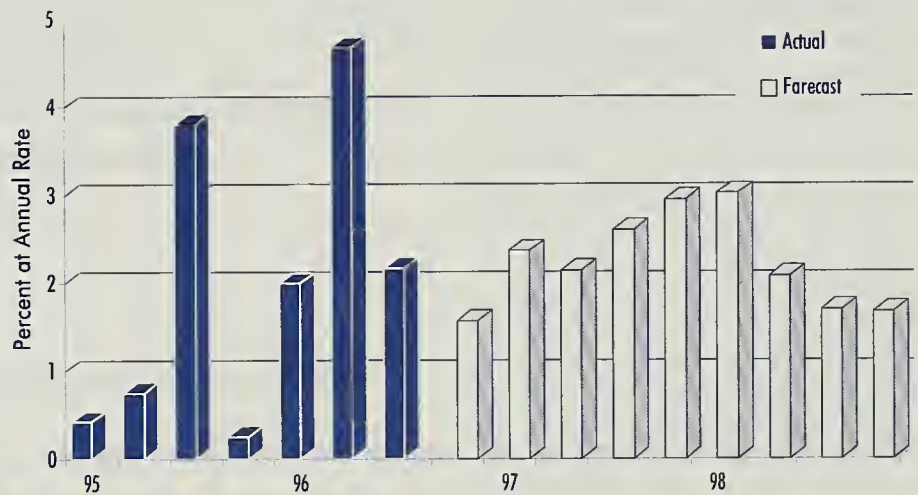
However, when company per share earnings are compared to the real, inflation-adjusted return on bonds, the market's valuation looks much more reasonable.

Misleading Indicators. If anything, the official figures may be casting the economy in an unfavorable light. A Senate Commission reported in December that the consumer price index (CPI) overstates inflation by more than a percentage point each year. The implications for the federal budget of this inflation overstatement are enormous—the Commission's suggestions could cut the federal deficit by \$1 trillion over 12 years because so much of the budget is indexed to the CPI—but also implied is the likelihood that economic growth may be significantly understated. The failure to properly incorporate quality improvement, which accounts for more than half of the error found by the Commission, means that the official statistics are underestimating the real value of output while overstating inflation.

Beyond the CPI problem, the difficulty in counting services output—which is often measured by counting inputs—means that productivity gains and quality improvements are often ignored in compiling overall economic statistics. Productivity (output per hour of work) is estimated to have risen a tiny 0.3 percent per year in the nonfarm business sector over the last five years, but this figure includes a substantial 3.4-percent annual gain in manufacturing, where output is quite easy to count. With factories accounting for less than one-fifth of nonfarm business, these figures imply a fairly sizable drop in output per hour in the nonmanufacturing sector of the private economy. Given today's emphasis on corporate efficiency, this seems a particularly implausible result. Since hours worked are verified from payroll records, the probable answer to the puzzle is that output is being understated.

These gaps in the statistical system are especially important to California, given the State's rapid shift toward such high-technology services

FIGURE ECON-3

Real Gross Domestic Product
Quarterly Pattern

as computer software, biotechnology, multimedia, entertainment, and research and development. Indeed, it is unclear whether most software design and Internet activity is even included at all in the current set of economic output data. A statistical system that expends over 80 percent of its resources measuring the production of goods, which account for less than one-quarter of output, is badly out-of-date for the U.S. economy, and virtually irrelevant to California's economy. (see Figure ECON-3)

Outlook: More of the Same.

Economic growth should continue at about a 2½-percent pace for much of the next two years, while inflation is expected to remain relatively low.

- ◆ Spurred by the need to strengthen household balance sheets, consumers will spend at a pace slightly below the rise in incomes, allowing their debt position to return gradually to more comfortable levels. New car and light truck sales, which reached an eight-year high of 15.1 million units in 1996, are expected to edge down to 14.9 million units this year and 14.5 million in 1998.
- ◆ Driven mainly by demographic forces—the key household forming 25-to 34-year-old population is now declining by 700,000 per year, after rising by over one million annually in the 1970s and early 1980s—housing starts are also likely to inch down from 1.47 million units last year to just under 1.4 million by 1998.
- ◆ Business investment growth will slow somewhat, with gains in hotel and office construction partially offsetting a more moderate pace of equipment spending.

- ◆ A relatively strong dollar exchange rate implies a further deterioration in the trade and current account balance. The balance on goods and services is expected to hover around \$200 billion in 1997 and 1998, compared to last year's estimated \$169 billion gap.
- ◆ The nation's jobless rate should remain low, in the 5¼-percent range. Thus, wage gains will escalate moderately but the strong dollar and weak commodity prices should keep inflation mainly in check.
- ◆ After rising 3 percent in 1996, consumer prices are expected to inch up 3.3 percent in 1997 and 3.6 percent in 1998 (2½ percent or less using the Senate Commission corrections.)
- ◆ Interest rates are expected to move in a relatively narrow band, although there could be some upward pressure on longer-term rates in 1998.

THE CALIFORNIA ECONOMY

The California economy continues its strong, sustained growth—gaining over 330,000 jobs and \$55 billion of personal income last year. Jobs are being created across a wide range of industries, including many high-wage, high-skill, and high-technology sectors. Technological innovation—one of California's historic and ongoing strengths—has fostered leading-edge industries such as electronics manufacturing, computer, multimedia and communications software, and biotechnology that are now powering the State's economic expansion. Strong advances in these key industries create a very positive outlook for the California economy.

The Trillion Dollar Economy. This vigorous two-year-old expansion confirms that California's economy has once again transformed itself, with leadership passing from defense-related aerospace to the diverse clusters of high-technology manufacturing and service industries,

ECONOMIC OUTLOOK

probably best described as the information economy which will dominate the early part of the new century. Only California has the unique mix of industrial skills, imaginative talents, risk-taking entrepreneurship, and venture capitalists necessary to produce the products and services which define this new information age.

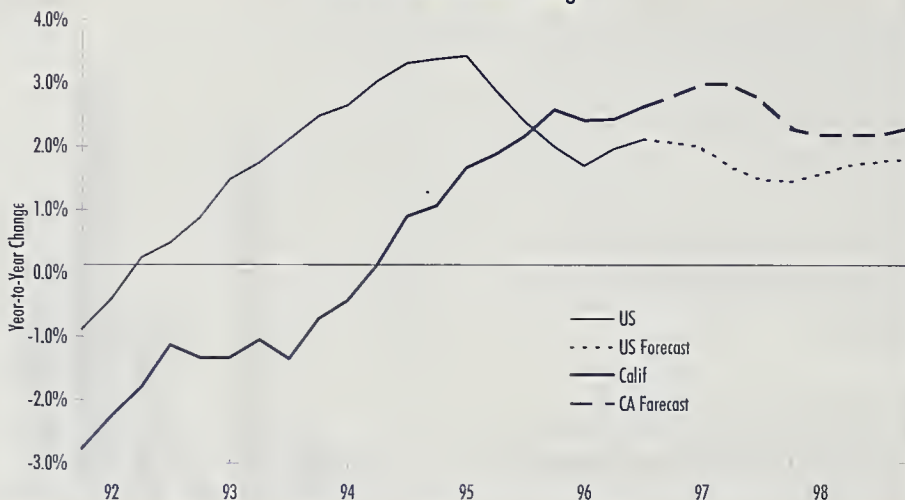
As this new year begins, California's economy will pass a historic milestone. The total value goods and services produced in the state—gross state product—will run at an annual rate of \$1 trillion. This year, U.S. output will total approximately \$7.9 trillion. California alone will contribute \$1.035 trillion of that output—an amount virtually identical to nominal U.S. GDP in 1970, the first year the nation passed the trillion dollar mark. (see Figure ECON-4)

Strong Employment Growth. The pace of job creation in 1996—2.7 percent—was stronger than in 1995 and the fastest since 1989. California employment is expanding more rapidly than the nation as a whole, which saw scarcely 2-percent job gains last year. The most striking contrast is in manufacturing, where California is adding jobs, while factories nationwide are showing declines.

California's robust economic growth is being driven by gains in high-technology services and manufacturing, foreign trade, entertainment and tourism—all basic or export industries. These trends are reflected by strong advances in business services (which includes computer software and systems design), motion picture production, the lodging industry, electronics manufacturing, engineering and management services (which includes biotechnology), and transportation. Many of these jobs, especially in the technology fields and

FIGURE ECON-4

Nonfarm Employment - U.S. and California Year-to-Year Percent Change



entertainment, are high-skill, high-pay jobs which also help to create opportunities in population-serving industries such as retail trade.

California's economy benefits significantly from international trade. For the third year in a row, exports of California-produced goods grew at a double-digit pace in 1996, up more than 13 percent through September, nearly double the nation's 7.6-percent increase. When service exports, such as motion pictures and software, tourism, and engineering and management are added, California trades as much with the rest of the world as it does with the rest of the nation.

Aerospace manufacturing in California appears to have turned the corner. Job losses in defense-related aircraft and missiles appear to have bottomed out, and modest job gains have occurred in search and navigation equipment and in commercial aircraft production. In another defense-related area, ongoing effects of military base closures are reflected in

declining federal-civilian Defense Department employment, a trend which should diminish over the next two to three years. (see Figure ECON-5)

Construction employment continues to rise, mainly reflecting strength in nonresidential activity. With office, hotel, and industrial vacancy rates low and falling in most areas of the state, the market for nonresidential buildings is being driven by strong fundamental forces—including some of the lowest vacancy rates in the nation for office and industrial space in several of the State's major metropolitan areas. In addition, earthquake repair and retrofit to highways and bridges is contributing to growth in construction employment.

The current upturn is unusual in the sense that several major industries are undergoing significant restructuring. Job losses are occurring in industries which, in the past, have been a stable source of growth to California's economy. The effects of deregulation in the utilities sector was first evident in the State's major

FIGURE ECON-5

Nonfarm Employment - California and U.S.
Percent Change, November 1995-96

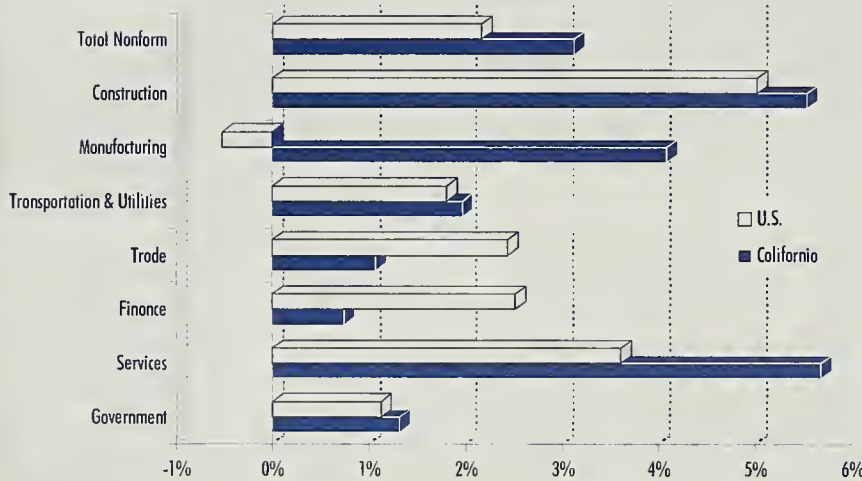
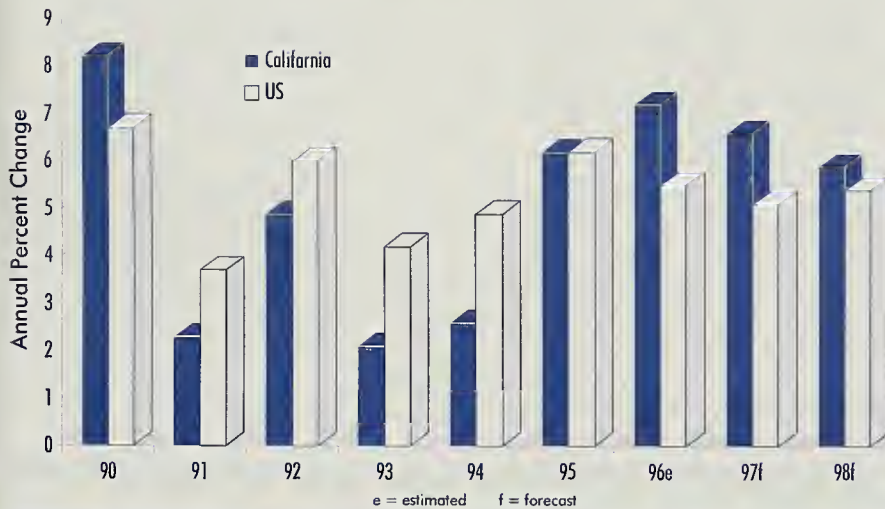


FIGURE ECON-6

Personal Income Growth
California and U.S.



telephone companies, and is now being seen in the energy utilities. Banking and insurance are streamlining and consolidating.

As usual, however, the State is on the leading edge of what will eventually be nationwide trends, and in many cases, restructuring in California will be completed before it even gets underway in other areas of the country. Already, shrinkage in the regulated telecommunications industry has been overcome by growth in the unregulated wireless segment. In medical care, California has for the most part completed the shift to managed care, and job growth resumed in 1995 and 1996. California's share of the nation's banking employment, which peaked at 15 percent in the early 1980s, is now less than 9 percent—well below the State's 12½ percent share of U.S. population.

The nation's electric utilities are looking to California for leadership in deregulation of this vital economic segment. Deregulation promises to make California more competitive by lowering electric rates by at least 20 percent over the next five years. (see Figure ECON-6)

Solid Income Growth. Personal income rose to \$815 billion in 1996—a 7.2-percent increase over 1995, outpacing gains nationwide. Wages and salaries grew at a similar rate—6.9 percent. The growth in wages and salaries was over 2½ times the increase in employment—a result of the relatively large share of employment growth occurring in high-technology, high-wage jobs. With inflation (as measured by the California consumer price index) increasing by 2 percent from last year, real income has increased by over 5 percent.

Homebuilding: Still Struggling.

Homebuilding remains the missing piece to the California expansion. In past upturns, housing permits usually led—or at least coincided with—employment and income growth. Although recent months have shown an encouraging uptick in new home construction, the State's residential construction sector is lagging by the standards of past recoveries. Homebuilding is up from last year's near-record low, but activity remains well below the quarter-million-unit annual average experienced in the last half of the 1980s.

Weakness in housing is due, in part, to the lingering effects of the last recession. Home prices are beginning to show signs of stability after a 20-percent decline over the last five years. These price trends have greatly decreased the incentive to purchase homes for investment purposes.

Other, longer-term demographic trends are also affecting housing demand. The number of adults in their prime first-time home-buying years, ages 25 to 34, has begun to decrease—the first such decline in California for at least a century. The larger number of persons per household of many new immigrants to the state also dampens the demand for housing.

California Outlook. Solid gains in employment and income will continue for the next two years with growth above the national average. Inflation in California will remain less than the rise in prices nationwide.

- ◆ Nonfarm employment is projected to grow faster than the nation for the next two years. Growth in 1997 should match the 1996 pace. Some slowing is expected in 1998, reflecting moderation in

California construction and electronics manufacturing growth.

- ◆ The State should continue to see increases in high-wage, high-technology industries, including motion pictures, computer systems and software, much of it driven by the emerging multimedia and Internet-support industries—nearly all of which are centered in California.

- ◆ Aerospace should post modest gains. Defense-related aircraft employment should stabilize and aircraft electronics equipment employment should increase. In addition, commercial aircraft orders are on the rise, which will have a positive effect on California-based aerospace suppliers.

- ◆ Personal income growth is expected to remain strong—increasing by more than 6½ percent in 1997 and about 6 percent in 1998.

- ◆ New home construction should continue its slow recovery, with permits rising from 94,000 units in 1996 to 110,000 in 1997, and 121,000 in 1998. New nonresidential building valuations are up over 15 percent from a year ago. Given low office and industrial vacancy rates, nonresidential construction will continue to increase over the next two years.

- ◆ Inflation is projected to increase slightly, rising from 2 percent in 1996 to 2.7 percent in 1997 and 1998. (see Figure ECON-7)

FIGURE ECON-7

Selected Economic Data for 1996, 1997, and 1998

United States	1996	1997	1998
Real gross domestic product, (1992 Dollar) (Percent change)	2.3	2.4	2.5
Personal consumption expenditures	2.4	2.7	2.5
Gross private domestic investment	4.9	4.3	4.2
Government purchases of goods and services	0.8	0.6	0.4
GDP Deflator (1992=100) (Percent change)	2.0	2.4	2.9
GDP, (Current dollar) (Percent change)	4.3	4.8	5.5
Federal Funds Rate (Percent)	5.3	5.1	5.0
Personal income (Percent change)	5.5	5.1	5.4
Corporate profits before taxes (Percent change)	4.8	2.4	8.1
Nonfarm Wage and salary employment (Millions)	119.5	121.5	123.6
(Percent change)	2.0	1.7	1.7
Unemployment rate (Percent)	5.4	5.2	5.2
Housing starts (Thousands)	1,473.3	1,417.1	1,378.6
(Percent change)	8.5	-3.8	-2.7
New car sales (Millions)	8.6	8.3	8.5
(Percent change)	-0.8	-3.2	1.7
Consumer Price Index (1982-84=100)	156.8	162.0	167.8
(Percent change)	2.9	3.3	3.6
California			
Civilian labor force (Thousands)	15,496	15,639	15,909
(Percent change)	0.5	0.9	1.7
Civilian employment (Thousands)	14,372	14,575	14,807
(Percent change)	1.2	1.4	1.6
Unemployment (Thousands)	1,124	1,064	1,102
(Percent change)	-7.1	-5.3	3.6
Unemployment rate (Percent)	7.3	6.8	6.9
Nonfarm Wage and salary employment (Thousands)	12,771	13,100	13,351
(Percent change)	2.7	2.6	1.9
Personal income (Billions)	\$815.0	\$869.1	\$920.5
(Percent change)	7.2	6.6	5.9
Housing units authorized (Thousands)	94	110	121
(Percent change)	9.4	16.8	9.9
Corporate profits before taxes (Billions)	\$72.0	\$74.4	\$76.6
(Percent change)	4.6	3.3	2.9
New auto registrations (Thousands)	1,360	1,407	1,421
(Percent change)	4.1	3.4	1.0
Total taxable sales (Billions)	\$321.3	\$337.5	\$351.9
(Percent change)	6.8	5.0	4.3
Consumer Price Index (1982-84=100)	157.1	161.3	165.7
(Percent change)	2.0	2.7	2.7

Note: Percentage changes calculated from unrounded data.

REVENUE ESTIMATES

California's economic recovery substantially boosted revenues over the last year. General Fund collections grew by over 8 percent in fiscal year 1995-96—the fastest pace since 1988-89. By the end of 1995-96, revenues totaled \$46.3 billion, which is \$3.6 billion above 1994-95 actual collections. Revenue for the 1996-97 and 1997-98 fiscal years is forecast at \$48.4 billion and \$50.7 billion, respectively, representing annual growth of \$2.1 billion (4.6 percent) for 1996-97 and \$2.3 billion (4.7 percent) for 1997-98.

Recognizing that California needed to improve its competitive position in order to continue to attract jobs and investments, the Governor and the Legislature enacted several important changes in tax law last year. The bank and corporation tax rate was reduced by five percent, and a number of targeted business tax incentives were put in place. While these changes represent important steps in enhancing the State's business climate, California's corporate tax rate still remains 14th highest in the nation. Further, bank and corporation rate reductions are important to better align California's corporate tax with those imposed in competing states. The Governor's Budget

proposes a further 10-percent reduction in the bank and corporation tax rate phased in over a two-year period beginning with the 1998 tax year. This would implement the balance of the Governor's proposal last year for a 15-percent bank and corporation tax reduction.

In addition, the Governor's Budget proposes that the State conform with recent federal changes in the allowable number of Subchapter S shareholders. Under federal law, a Subchapter S corporation may now have up to 75 shareholders, but California law is conformed with the prior limit of 35 shareholders. Immediate action on this issue is necessary if California Subchapter S shareholders are to be able to take advantage of the new federal limits.

Combined, these tax reduction proposals are estimated to reduce taxes by \$93 million during 1997-98, \$336 million during 1998-99, and \$562 million during 1999-2000.

The Governor's Budget also assumes that federal authorization for states to establish an Internal Revenue Service refund offset program will be enacted and includes \$85 million per year beginning with the 1997-98 fiscal year attributable to this program. The revenue forecast also reflects the Governor's Budget proposal to have counties submit specific fines and penalty revenue to the Trial Court Trust Fund rather than the General Fund for the funding of the Trial Courts.

Figure REV-1 provides a summary of the forecast and preliminary collections in 1995-96.

FIGURE REV-1

General Fund Revenue (Dollars in Millions)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
Personal Income Tax	\$20,875	\$22,660	\$24,240
Sales and Use Tax	15,753	16,485	17,325
Bank and Corporation Tax	5,862	5,795	5,860
All other	3,806	3,465	3,232
Totals, revenues and transfers	\$46,296	\$48,405	\$50,657
Annual percent change		4.56%	4.65%

REVENUE ESTIMATES

Overall, General Fund revenues and transfers represent about 78 percent of total revenues. The remaining 22 percent are special funds, dedicated to specific programs. The three largest revenue sources (personal income, sales, and bank and corporation) account for about 73 percent of total revenues.

PERSONAL INCOME TAX - \$24,240,000,000

Overall, personal income tax revenues are expected to increase by 8.6 percent for 1996-97 and 7 percent for 1997-98. The estimate includes the impact of the top personal income tax rates expiring at the end of the 1995 tax year, returning the top marginal state income tax rate to 9.3 percent, and reducing state taxes for higher income taxpayers by almost \$800 million for the 1996 tax year. The estimate also includes the impact of the targeted tax relief and conformity provisions of Chapter 954, Statutes of 1996.

The California personal income tax, which contributes approximately 48 percent of all General Fund revenues, is closely modeled after the federal income tax law. It is imposed on net taxable income; that is, gross income less exclusions and deductions. The tax is progressive, with rates ranging from 1.0 to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below some minimum level. Effective January 1, 1996, the AMT is equal to 7 percent of the alternative minimum taxable in-

come that exceeds an exemption amount.

The personal income tax is adjusted annually by the change in the consumer price index, to prevent taxpayers from being pushed into higher tax brackets without a real increase in income.

The difficulty of forecasting personal income tax receipts is enhanced by the progressive nature of the tax. One dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. In addition, very high-income taxpayers usually have a great deal of discretion over the realization of income and the timing of deductions. Thus, substantial changes in the portfolios or tax planning of relatively few taxpayers can have a dramatic impact on state revenues. In 1994, for example, the top

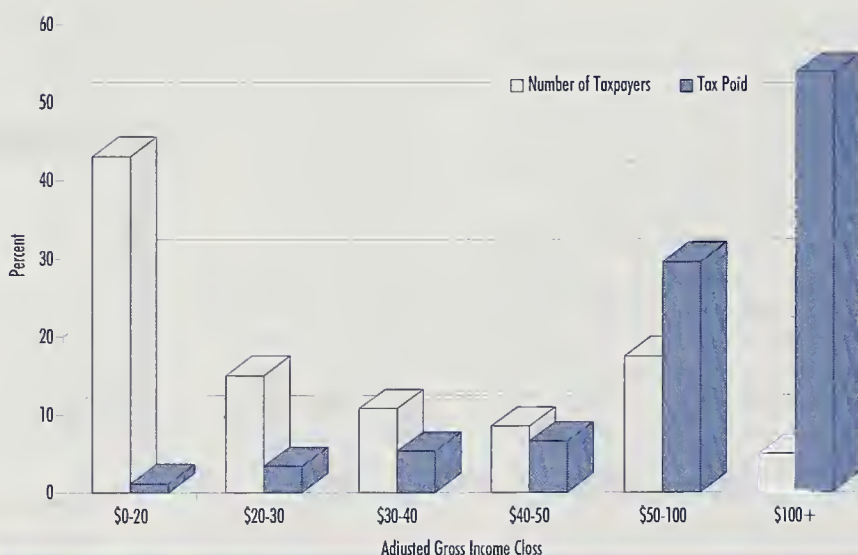
five percent of state taxpayers—those with adjusted gross incomes of over \$100,000—paid 53.9 percent of the personal income tax.

Even more important to recognize when considering the progressivity of the tax is the fact that lower income taxpayers, those with adjusted gross incomes of less than \$20,000, paid only 1.2 percent of the personal income tax in 1994, yet represented 43.1 percent of all California taxpayers. This result is demonstrated in Figure REV-2, which displays the percent of total returns and tax paid by adjusted gross income class.

These statistics do not take into account the number of residents who were not required to file tax returns because their adjusted gross income was below the threshold amount of \$6,000 (single) or \$12,000 (married) for 1994.

FIGURE REV-2

Percent of Total California Taxpayers and State Tax Paid by Adjusted Gross Income Class, 1994 Data
(Dollars in Thousands)



Personal income tax revenue forecasting has also been greatly complicated by federal and state tax changes which made capital gains fully taxable. Capital gains have always been an extremely volatile revenue source; holders of capital assets are predominantly very high-income taxpayers, subject to the maximum tax rate, who can time the realization of gains and the payment of tax to their own advantage.

The income component of the economic forecast forms the basis for the personal income tax forecast. Capital gains income, which is not part of the national income accounts, is forecast separately by using general economic activity and stock market trends. Real estate activity in the state is also used as a guide.

Personal income tax base revenues have bounced back strongly from the abnormally weak levels in the recession-plagued early 1990s. Following several years of year-to-year declines or minimal increases, underlying growth appears to have climbed by about 4 percent in 1994-95, before jumping 15 percent in 1995-96. This forecast assumes that base revenue growth will continue to substantially surpass income growth in 1996-97 due to a strong stock market and vigorous economic expansion. Base revenues are therefore expected to be up almost 12 percent in 1996-97. By 1997-98, growth should fall more in line with overall income gains—6.5 percent.

Preliminary data for 1995 indicate that capital gains increased approximately 23 percent from the 1994 tax year, and realizations for 1996 should also register solid increases. The securities market continued to be strong in 1996—the stock market is up

over 20 percent on top of 1995s exceptional growth of over 30 percent. This strong market performance will be reflected in the value of capital gains realized, as well as mutual fund distributions. Mutual fund shareholders are required to pay tax on these distributed profits, regardless of whether they sell any shares. The increase in capital gains realizations for the 1996 tax year is expected to be about 16 percent before leveling off in 1997.

The estimate assumes that legislation will be adopted at the federal level providing California with the authority to establish an Internal Revenue Service (IRS) offset program. Under this program, the IRS would withhold federal tax refunds to satisfy legally enforceable, past due state tax obligations. This is expected to augment personal income tax revenues by \$80 million annually beginning with the 1997-98 fiscal year.

A redirection of Franchise Tax Board (FTB) resources to filing enforcement and audits is expected to increase

1997-98 revenues by \$54 million. The forecast also includes an estimated \$2 million in additional tax revenue that will be received from proposed FTB budget changes.

Forecast revenues compared with preliminary collections in 1995-96 are:

(Dollars in millions)

1995-96 (Preliminary)	\$20,875
1996-97 (Forecast)	22,660
1997-98 (Forecast)	24,240

SALES TAX - \$17,325,000,000

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, electricity, and gas delivered through mains, thereby making the tax more

FIGURE REV-3

State and Local Sales and Use Tax Rates

State Rates		
General Fund	5.00%	Pursuant to Chapter 117, Statutes of 1991, this rate may be temporarily reduced by 0.25% if certain requirements regarding General Fund reserves are met. The temporary rate reduction could be reinstated if General Fund reserves were to fall below the statutory minimum for their retention.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and welfare programs transferred to counties as part of state-local realignment.
Local Uniform Rates		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use. ¹
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.
Local Add-on Rates		
Transactions and Use Taxes ²	1.50%	May be levied in 0.25% increments up to a combined maximum of 1.50% in any county. ³ Any ordinance authorizing a transactions and use tax requires approval by the county Board of Supervisors or special purpose authority created by the county Board of Supervisors and the county voters.

¹ The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

² These locally-imposed taxes are collected by the state for each local jurisdiction and are not included in the state's revenue totals.

³ The three exceptions to the 1.5 percent maximum include San Mateo County and San Francisco City and County, which may exceed the limit by 0.50 percent and 0.25 percent, respectively, and San Diego County, which is subject to a 1.0 percent maximum. Stanislaus and San Joaquin Counties may levy transactions and use taxes in increments of 0.125 percent. To date, 35 counties and county-wide special districts have levied transactions and use taxes. Six cities have also been granted legislative authority to impose transactions and use taxes on less-than-county-wide bases.

REVENUE ESTIMATES

progressive than it would be otherwise. Additional exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to returnable containers.

A summary of the sales and use tax rates currently imposed at the state and local levels is contained in Figure REV-3. Combined state and local tax rates currently imposed in each county are summarized in Figure REV-4.

Taxable sales in 1995 grew 5.2 percent over 1994, similar to the prior year-over-year increase of 5.1 percent. Taxable sales registered strong growth during the first half of calendar year 1996 (up 7.6 percent from the prior year), partially as a result of a very weak first quarter of 1995. Sales during the first half of 1996 were led by motor vehicle, office equipment, and fuel, though nearly all components registered gains over the prior year. Component detail for third quarter taxable sales is not yet available, but aggregate sales data based on cash receipts suggest that sales rose 5.6 percent over the third quarter of the prior year. Growth in annual taxable sales for calendar year 1996 is estimated to be 7 percent, slowing to 4.8 percent for calendar year 1997. A summary of the forecast for taxable sales growth is presented in Figure REV-5. A breakdown of sales by major component is presented in Figure REV-6.

The sales and use tax revenue forecast is prepared by relating taxable sales by type of goods purchased to economic factors such as personal income, employment, housing starts, new car sales, and inflation. The forecast is then adjusted for significant legislation and other factors that are expected to affect sales tax revenues.

Some of the significant adjustments applied to the forecast include the following:

- ◆ In June 1990, the California Court of Appeals ruled that direct overhead items purchased under U.S. government cost reimbursement contracts are not taxable. California has resolved all suits related to this issue and will continue to issue refunds through the year 2000. The forecast assumes that the General Fund's share of these refunds will equal \$56 million in 1996-97 and \$46 million in 1997-98.
- ◆ Chapter 954, Statutes of 1996, made three changes to the Sales and Use Tax Law. This legislation included sales and use tax exemptions for qualified aircraft parts and medicines administered to food animals and authorized changes to the manufacturers' investment

FIGURE REV-4

Combined State and Local Sales and Use Tax Rates by County

(Rates in Effect on January 1, 1997)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.25%	Madera	7.75%	San Joaquin	7.75%
Alpine	7.25%	Morin	7.25%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa	7.25%	San Mateo	8.25%
Butte	7.25%	Mendocino	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced	7.25%	Santa Clara	7.75%
Colusa	7.25%	Modoc	7.25%	Santa Cruz	8.25%
Contra Costa	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.75%	Monterey	7.25%	Sierra	7.25%
El Dorado	7.25%	Napa	7.25%	Siskiyou	7.25%
Fresno	7.75%	Nevada	7.25%	Salano	7.25%
Glenn	7.25%	Orange	7.75%	Sanama	7.50%
Humboldt	7.25%	Placer	7.25%	Stanislaus	7.375%
Imperial ^{1/}	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito	8.25%	Tulare	7.75%
Lake ^{2/}	7.25%	San Bernardino	7.75%	Tuolumne	7.25%
Lassen	7.25%	San Diego	7.75%	Ventura	7.25%
Los Angeles	8.25%	San Francisco	8.50%	Yolo	7.25%
				Yuba	7.25%

^{1/} 8.25% for sales in the City of Calexico (Calexico Heffernan Memorial Hospital District).

^{2/} 7.75% for sales in the City of Clearlake (City of Clearlake Public Safety Transactions and Use Tax).

FIGURE REV-5

Taxable Sales Growth in California

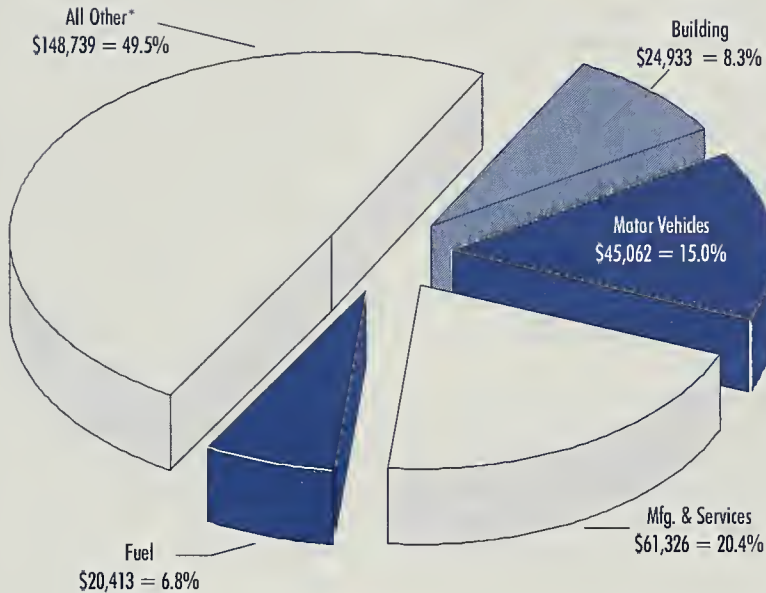
	1995 Actual	1996 Forecast	1997 Forecast	1998 Forecast
Motor Vehicles	6.07%	8.19%	6.15%	4.44%
Fuel ^{1/}	2.44%	8.28%	-1.97%	2.49%
Building Materials	2.06%	7.05%	9.47%	5.99%
Manufacturing and Services	8.39%	7.68%	4.77%	3.51%
All other Retail Sales	4.42%	5.85%	5.11%	4.52%
Total Taxable Sales	5.20%	7.01%	4.84%	4.30%

^{1/} Strong growth in 1996 reflects a one-time spike in gas prices in the second quarter.

Fuel sales will show a slight decline in 1997 due to the stabilization of prices at a lower level.

FIGURE REV-6

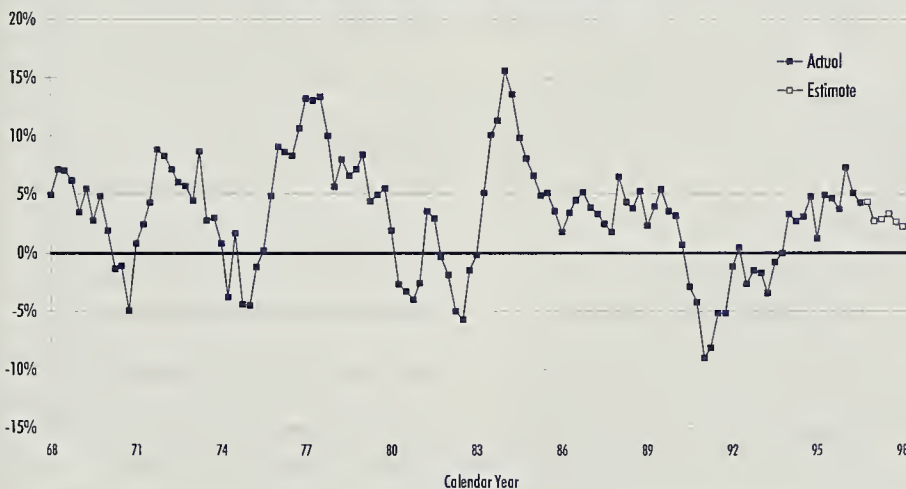
1995 Taxable Sales by Major Components (Dollars in Billions)



* Includes furniture, apparel, general merchandise, specialty goods, and eating & drinking establishments

FIGURE REV-7

Taxable Sales in California^{a/} (Annual Percent Change in Constant Dollars)



^{a/} Includes the impact of expanding the tax base to include candy, snack foods and bottled water from July 15, 1991 through November 30, 1992.

credit. The forecast includes a reduction of \$8 million in 1996-97 and \$5 million in 1997-98 attributable to this legislation.

- ◆ In July 1996, the Board of Equalization (BOE) issued a Memorandum Opinion that exempts from sales taxes much of the complimentary food and beverages offered by lodging establishments to their guests. The forecast assumes that sales tax revenues will be reduced by \$6 million annually beginning with the 1996-97 fiscal year as a result of this Memorandum Opinion.
- ◆ The Governor's Budget proposes two changes in the BOE's budget which are expected to result in increased sales and use tax collections. Providing funding for an automated compliance management system is expected to generate \$15 million in 1996-97 and \$19 million in 1997-98. Continuing an audit settlement program is expected to generate \$8 million in 1997-98.
- ◆ The forecast also assumes that federal authorization for states to establish an Internal Revenue Service (IRS) offset program will be approved. This is expected to augment state sales tax revenues by \$5 million annually beginning with the 1997-98 fiscal year.

Figure REV-7 illustrates the actual and estimated quarterly growth in California taxable sales, adjusted for inflation.

Current law specifies that certain state revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Transportation Planning and Development Account. The combined transfer to this Account during 1996-97 is estimated to be

FIGURE REV-8

Sales Tax Revenue
(Dollars in Thousands)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
General Fund	\$15,753,154	\$16,485,000	\$17,325,000
Sales and Use Tax--Realignment	1,605,439	1,657,800	1,770,000
Transportation, Planning, and Development Account	166,274	185,485	191,544
Disaster Relief Fund	151	0	0
Total	\$17,525,018	\$18,328,285	\$19,286,544

\$185 million, increasing to \$192 million during 1997-98.

Revenues from state-imposed sales tax rates are delineated in Figure REV-8. Forecast General Fund sales tax revenues compared with preliminary collections for 1995-96, are as follows:

(Dollars in millions)

1995-96 (Preliminary)	\$15,753
1996-97 (Forecast)	16,485
1997-98 (Forecast)	17,325

**BANK & CORPORATION TAX -
\$5,860,000,000**

Legislation enacted as part of the 1996-97 Budget (Chapter 170, Statutes of 1996) reduced the bank and corporation tax rate by 5 percent—from 9.3 percent to 8.84 percent—for income years beginning on or after January 1, 1997. This is estimated to reduce bank and corporation tax revenues by \$85 million in 1996-97 and \$230 million in 1997-98.

The 1997-98 revenues incorporate the Governor's tax reform proposal for an additional 10 percent rate reduction to be phased in over two years beginning in 1998. The

8.84 percent tax rate would be reduced to 8.4 percent for income years beginning on or after January 1, 1998, and to 7.96 percent for income years beginning on or after January 1, 1999; the alternative minimum tax rate would be similarly reduced. This proposal is estimated to reduce General Fund revenue by \$88 million in 1997-98. Also included as part of tax reform is conformity to the recently enacted federal Subchapter S corporation provisions, which increased the number of allowable shareholders from 35 to 75. This proposal is estimated to reduce General Fund revenues by \$5 million in 1997-98. A redirection of Franchise Tax Board resources to filing enforcement and audits is expected to increase 1997-98 revenues by \$12.7 million.

Bank and corporation tax revenues are actually derived from four taxes:

- ◆ The franchise tax and the corporate income tax are levied at a 8.84-percent rate on profits for income years beginning on or after January 1, 1997. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that do not do business in the State but derive income from California sources.

An example of this would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers. Corporations that qualify for state Sub-Chapter S status are taxed at a 1.5 percent rate.

- ◆ Banks and other financial corporations pay an additional tax (i.e., "Bank Tax") on their net income. This tax is in lieu of personal property taxes and business license taxes. The current rate for this tax is 2 percent. The bank tax is in addition to the franchise tax.

- ◆ The alternative minimum tax is similar to that in federal law. This tax is imposed at a rate of 6.65 percent for income years beginning on or after January 1, 1997. Prior to the 1988 tax year, California did not have an alternative minimum tax but imposed a tax on preference income.

A minimum franchise tax of \$800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. Beginning in 1997, new corporations with gross receipts under \$1 million pay a reduced minimum tax of \$600 for their first year of incorporation.

Since the tax is a function of corporate profits, the relationship of California profits to the national corporate profits is important. However, the relationship is not precise because business activity in California may differ from that of the nation. Also, state tax law defines profits differently than standard business accounting, and national profits, as represented by the economic forecast, are the net of all gains and losses whereas only gains are taxed. Although national profits are considered, the preparation of the forecast involves analysis of the trend in

California noncorporate business income and employment, and recent actual cash experience. Noncorporate business income is available for California whereas corporate profit data is not.

The forecast reflects the economic outlook as well as recent legislation, including the 5-percent rate reduction (Chapter 170, Statutes of 1996) and the targeted tax relief and conformity provisions of Chapter 954, Statutes of 1996. Following two years of double-digit profit growth, the forecast assumes continued but moderate growth through the forecast period, which is consistent with the economic outlook. There is some concern that the third prepayment for calendar year corporations was notably weak. However, the forecast is based on the assumption that this weakness was an aberration in the payment pattern, possibly due to a one-time correction pertaining to the Manufacturers' Investment Credit, and therefore, was not built into the underlying trend for profit growth.

Legislation enacted during 1996 that pertains to this tax included:

- ◆ Chapter 57 (SB 141): Clarified rules and procedures pertaining to Limited Liability Companies.
- ◆ Chapter 170 (AB 3499): Reduced the bank and corporation tax rate by 5 percent—from 9.3 percent to 8.84 percent—for income years beginning on or after January 1, 1997. The alternative minimum tax was also reduced by 5 percent—from 7 percent to 6.65 percent.
- ◆ Chapter 286 (SB 1550): Exempted out-of-state corporations that meet certain criteria regarding convention and trade show activities from the franchise tax; however, these

corporations are still subject to the corporate income tax.

- ◆ Chapter 505 (AB 744): Canceled specified tax liabilities due to incomplete dissolution of operations for corporations that meet certain conditions.
- ◆ Chapter 952 (SB 715): Made various clarifying and technical changes to income tax statutes.
- ◆ Chapter 953 (AB 296) and Chapter 955 (SB 2023): Unified program areas and enterprise zones into one program with one set of incentives.
- ◆ Chapter 954 (SB 38): Enacted several targeted tax relief and conformity provisions, including but not limited to, an increase in the research and development credit, a flat 75-percent foreign source dividend deduction and a 75-percent interest offset for water's edge taxpayers, and a reduced minimum franchise tax for the first year of a new corporation.

Forecast revenues compared to preliminary collections in 1995-96 are:

(Dollars in millions)

1995-96 (Preliminary)	\$5,862
1996-97 (Forecast)	5,795
1997-98 (Forecast)	5,860

**INSURANCE TAX -
\$1,196,000,000**

The majority of insurance written in California is subject to a 2.35-percent gross premiums tax. This premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. The basis of the tax is the amount of "gross premiums" received, less re-

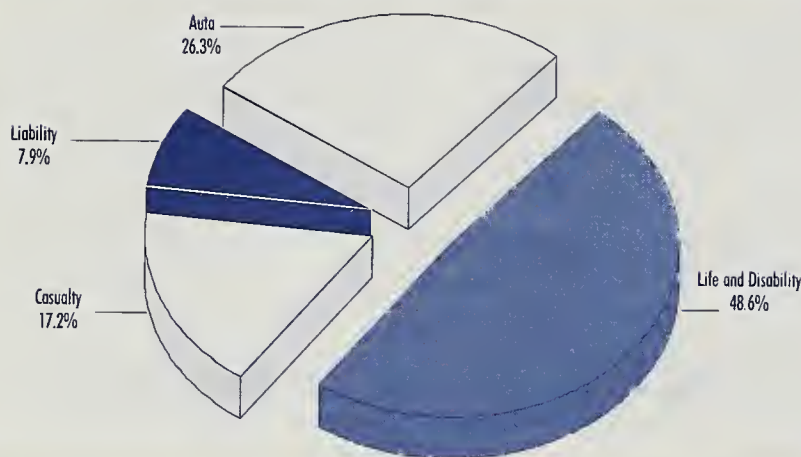
turn premiums, upon business done in the state, with some exceptions. Insurers transacting title insurance are taxed upon all income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5-percent rate. Other exceptions to the 2.35-percent rate include certain pension and profit-sharing plans, including qualified annuities, which are taxed at the lesser rate of 0.5 percent; surplus lines and nonadmitted insurance are taxed at 3 percent.

An annual survey conducted by the Department of Finance is used to project insurance premium growth. Responses are obtained from about 300 insurance companies, accounting for over two-thirds of the insurance written in California. Figure REV-9 illustrates the proportion of premiums by insurance type, from which the revenue is derived. For 1995, \$52.4 billion in taxable premiums were reported. The most recent survey indicates that taxable premiums will grow by 2.2 percent in 1996 and 1.1 percent in 1997.

In addition to the above, recently signed legislation will impact the premium base. Chapter 1126, Statutes of 1996, requires the Department of Motor Vehicles to require upon registration or renewal of a motor vehicle, evidence of insurance or financial responsibility. This forecast assumes that 5 percent of the registered vehicle population will seek insurance to comply with this requirement, providing an additional \$40 million in insurance tax revenues. Although the implementation date is January 1, 1997, these revenues will not show up until 1997-98 when final 1997 payments and the prepayments for 1998 are received.

FIGURE REV-9

Insurance Premiums by Category



Chapter 967, Statutes of 1996, allows the California Earthquake Authority (CEA) to provide earthquake insurance to residential homeowners, mobile homeowners and renters. Companies that participate in the CEA will offer basic earthquake coverage through the CEA. These policies are exempt from the gross premiums tax. The CEA became operational in early December 1996 and is expected to provide 72 percent of the statewide earthquake insurance. This forecast reflects an estimated revenue loss from Chapter 967 of \$3.3 million in 1996-97 and \$30.3 million in 1997-98.

Forecast revenues for the 1996-97 and 1997-98, compared with preliminary collections in 1995-96 are:

(Dollars in millions)

1995-96 (Preliminary)	\$1,132
1996-97 (Forecast)	1,124
1997-98 (Forecast)	1,196

ESTATE/INHERITANCE/ GIFT TAXES - \$655,000,000

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed an estate tax designed to pick up the maximum credit allowed against the federal estate tax, otherwise known as the "pick-up tax." The pick-up tax is computed on the basis of the federal "taxable estate" and tax rates range from 0.8 percent to 16 percent. This tax does not increase the liability of the estate due to the fact that it would otherwise be paid to the federal government. The date of death, or the date a gift is made, determines which tax laws prevail. As a result of Proposition 6, taxes from this source have dropped significantly since enactment.

For state tax purposes, the former inheritance and gift taxes apply to deaths and gifts occurring prior to June 1982, whereas transfers attributable to deaths on or after that date would only be subject to the federal credit. Figure REV-10 displays this

trend since 1984. Forecast revenues compared with preliminary collections for 1995-96 are:

(Dollars in millions)

1995-96 (Preliminary)	\$659
1996-97 (Forecast)	645
1997-98 (Forecast)	655

ALCOHOLIC BEVERAGE TAXES - \$262,100,000

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage. The tax rate per gallon for beer, dry wine, and sweet wine is \$0.20. The tax rates per gallon for sparkling wine and distilled spirits are \$0.30 and \$3.30, respectively.

Total gallons consumed for all types of alcoholic beverages are expected to decline a slight 0.2 percent in both the 1996-97 and 1997-98 fiscal years.

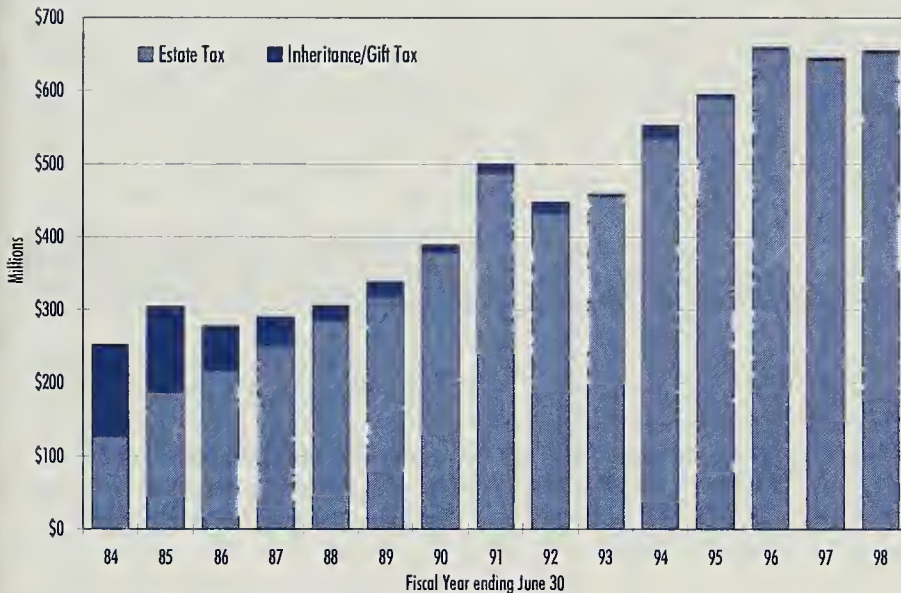
Total alcoholic beverage tax revenues from 1986-87 through 1997-98 are illustrated in Figure REV-11. Forecast revenues compared with preliminary collections for 1995-96 are shown in Figure REV-12.

CIGARETTE TAX - \$168,600,000

Since January 1989, the excise tax imposed on distributors selling cigarettes in California has been 35 cents per package, as a result of voter approval of Proposition 99. At the same time, an excise tax on cigars, chewing tobacco, pipe tobacco, and snuff was implemented at a rate "equivalent" to the tax on cigarettes. The cigarette tax was increased by 2 cents per package effective January 1, 1994, with passage of the Breast Cancer Act (Chapter 660,

FIGURE REV-10

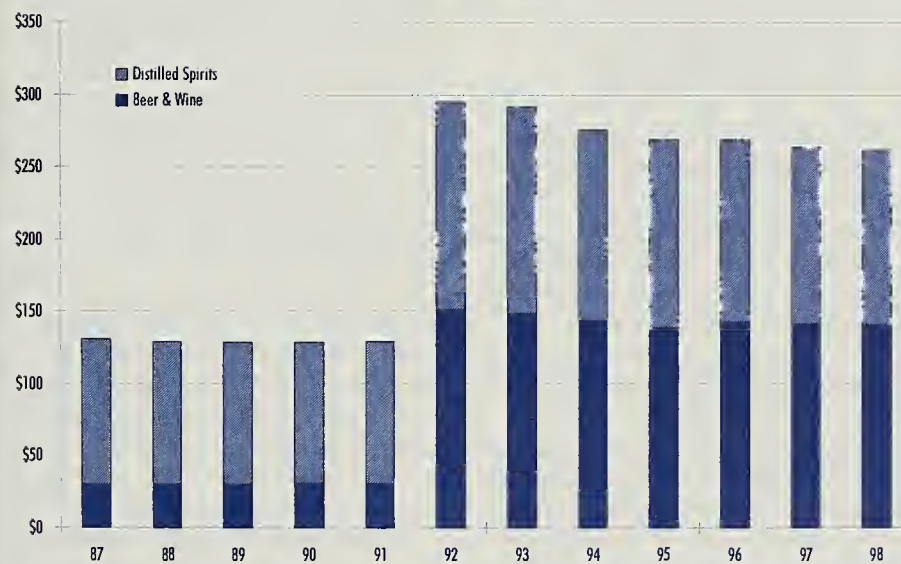
Estate, Inheritance, and Gift Tax Revenues



1996-97 and 1997-98 are estimated.

FIGURE REV-11

Alcoholic Beverage Tax Revenue (Dollars in Millions)



Revenues for 1996-97 and 1997-98 are estimated.

FIGURE REV-12

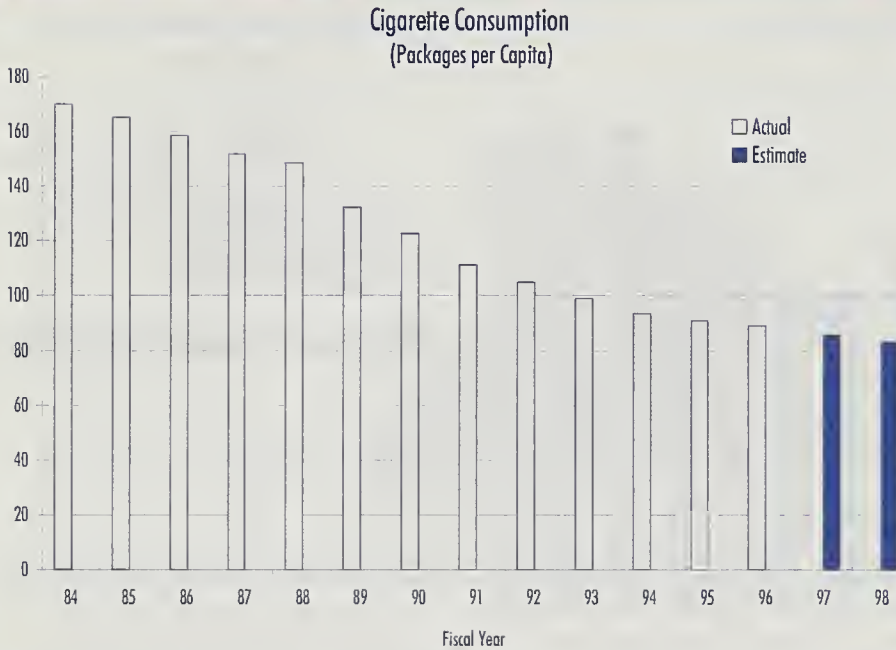
Beer, Wine and Distilled Spirits Revenue (Dollars in Millions)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
Beer and Wine	\$142.6	\$141.4	\$141.1
Distilled Spirits	126.6	122.8	121.0
Total	\$269.2	\$264.2	\$262.1

Statutes of 1993). Twenty-five cents of the tax per package of cigarettes, and the equivalent rates levied on non-cigarette tobacco products, are allocated to a special fund for distribution as determined by Proposition 99. Ten cents of the tax per package is allocated to the State's General Fund, with the remaining two cents deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environment for smokers, and state anti-smoking campaigns funded by Proposition 99 revenues have significantly impacted cigarette consumption. Per capita consumption had been declining at an average rate of 3 percent annually from 1983-84 through 1987-88, and then decreased rapidly with the onset of Proposition 99. During 1989-90, per capita consumption was 123 packs, compared with 89 packs in 1995-96. This figure equates to a 28-percent decrease over six years. The estimated increase in the smoking-age population will somewhat offset the declining per capita consumption in future years, resulting in declines in total consumption of approximately 4 percent in 1996-97 and 3 percent in 1997-98.

FIGURE REV-13



Wholesale price data provide the basis for the revenue estimate for other tobacco products, which includes such items such as cigars, chewing tobacco, and snuff. Cigars have been gaining in popularity recently; however, reports indicate that chewing tobacco use may be dropping off. Based on recent consumption patterns, it is estimated that other tobacco products will increase by 6.5 percent in 1996-97 and remain flat in 1997-98.

Per capita consumption of cigarettes, in packs, from 1983-84 through 1997-98, is illustrated in Figure REV-13. Total tobacco tax revenue estimates are shown in Figure REV-14.

The Governor's Budget purposes to augment the Board of Equalization's Tax Enforcement Program. It is anticipated that this augmentation will generate additional revenues in 1997-98 as follows: \$1.6 million General Fund; \$3.9 million Cigarette

and Tobacco Product Surtax Fund; and \$290,000 Breast Cancer Fund.

HORSE RACING REVENUE ~ \$37,030,000

Horse racing revenue comes primarily from license fees imposed on amounts wagered by the public. The license fee revenue schedule is based upon many factors, including the amount wagered, the location of the track, the type of horse racing, the type of wager, and whether or not the wager is made on-track or at a satellite facility. Other revenue sources include breakage (the odd cents not paid to winning ticket holders), unclaimed parimutuel tickets, occupational license fees, fines, and penalties.

The public may view horse races by attending live meets or may watch and wager at off-track facilities that receive the races televised live via

FIGURE REV-14

Tobacco Tax Revenue (Dollars in Millions)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
General Fund	\$170.8	\$169.0	\$168.6
Special Fund	496.0	487.8	486.6
Total	\$666.8	\$656.8	\$655.2

satellite. In addition, horse racing patrons placing bets at many out-of-state simulcast facilities may wager on California horse races, which generates additional revenue for the state.

State horse racing revenues have declined significantly during the past ten years and are expected to accelerate their decline through 1997-98. The steep declines anticipated during 1996-97 and 1997-98 reflect the interaction of four factors: 1) reductions in the overall amount wagered; 2) shifts from on-track to off-track wagering (since the license fees for off-track wagers are lower than those for on-track wagers); 3) passage of legislation (Chapter 1121, Statutes of 1996) that reduces license fees on thoroughbred and fair racing by 0.5 percent each on January 1, 1997; and 4) litigation involving license fees collected on satellite wagering at Indian-operated simulcast facilities. Figure REV-15 provides information on the distribution of receipts from horse racing.

SPECIAL FUND REVENUE

The California Constitution, codes, and statutes specify the uses of certain revenue. Such receipts are accounted for in various special funds.

FIGURE REV-15

Horse Racing Revenue

(Dollars in Thousands)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
General Fund	\$67,239	\$46,709	\$37,030
Fair & Exposition Fund	25,328	24,569	23,832
Satellite Wagering Account	12,740	12,674	12,166
Wildlife Restoration Fund	750	750	750
Total	\$106,057	\$84,702	\$73,778

In general, special fund revenues comprise three categories of income:

- ◆ Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- ◆ Charges for special services to specific functions, including such items as business and professional license fees.
- ◆ Rental royalties and other receipts designated for particular purposes—for example, oil and gas royalties.

Motor vehicle-related taxes and fees account for approximately 60 percent of all special fund revenue. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees, and vehicle license fees. During 1996-97, \$8.1 billion will be derived from the ownership or operation of motor vehicles. Approximately \$4.5 billion of this revenue will be returned to local governments. The remainder will be available for various state programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created a new special fund for the purpose of local program realignment. Revenue attributable to a 0.5-percent sales tax

rate is transferred to this Local Revenue Fund. During 1995-96, local governments received \$1.6 billion from this revenue source. In addition to this revenue, approximately 24 percent of all vehicle license fees are transferred to this fund.

Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at \$454 million in 1996-97 and \$452.9 million in 1997-98. An additional \$33.8 million for breast cancer research will be generated in 1996-97 by the 2 cents-per-pack cigarette tax enacted in 1993, while \$33.7 million will be generated in 1997-98 for this purpose. The original 10 cents-per-pack tax on cigarettes is allocated to the General Fund.

MOTOR VEHICLE FEES - \$5,466,444,000

Motor vehicle fees consist of vehicle license, registration, weight, driver's license fees, and various other charges related to vehicle operation.

The vehicle license fee (VLF) is imposed for the privilege of operating a vehicle on the public highways in California. This tax is imposed in lieu

of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. All of the revenues from this tax, other than administrative costs and fees on trailer coaches and mobilehomes, are constitutionally dedicated to local governments.

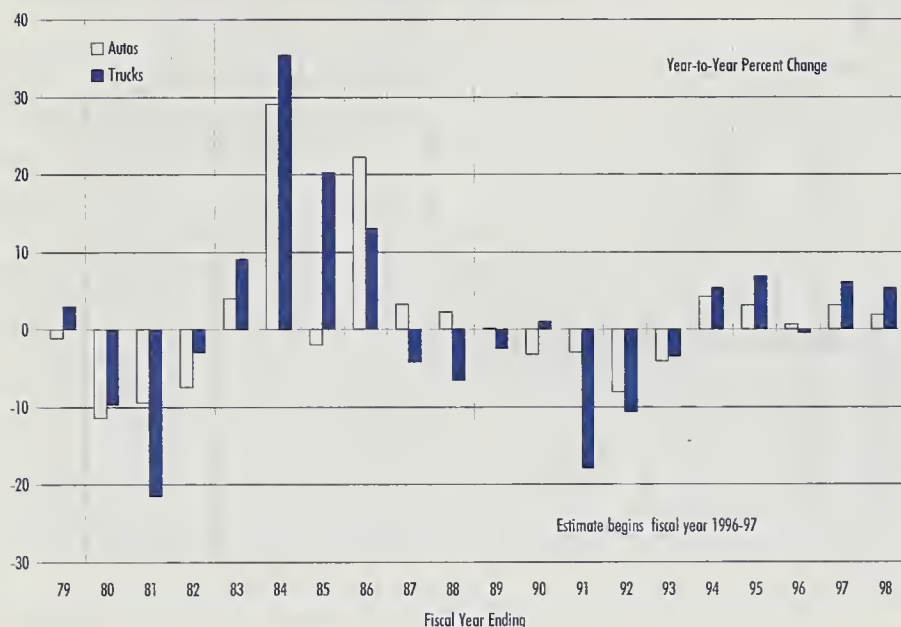
The VLF is calculated on the vehicle's "market value," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 2-percent rate is applied to the depreciated value to determine the fee. Thus, revenue from this source is contingent on the number of vehicles in the state, the ages of those vehicles, and their most recent sales prices.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those which are installed on permanent foundations (mobilehomes) are subject to either local property taxes or the VLF. Generally, if the mobilehome was purchased new prior to July 1, 1980, it is subject to the VLF which, in this instance, is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobilehomes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited into the General Fund.

Allowing for scrappage and for vehicles entering and leaving the state, total fee-paid registrations (autos, trucks, trailers, and motorcycles)

FIGURE REV-16

New Vehicle Registrations



including a proportional factor for multi-state vehicles at year end, are estimated at 24,571,000 for 1996-97, and 24,809,000 for 1997-98. As can be seen in Figure REV-16, the forecast assumes that new vehicle registrations will experience moderate growth throughout the forecast period.

Effective August 1, 1991, Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule, imposed a 2.2-percent surcharge on those license fees for a period of one year, and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments for the purpose of funding program realignment. During 1996-97, it is estimated that local governments will realize \$863.9 million from this revenue source, increasing to \$909.6 million during 1997-98.

- Vehicle registration fees are levied at a flat rate of \$29 on all motor vehicles, trailers, semi-trailers, and certain types of dollies. Trucks and trailers are also subject to fees based on their unladen vehicle weight. Proposition 111, approved by the voters in November 1990, increased the weight fees for vehicles with an unladen weight of more than 4,000 pounds by 40 percent effective August 1, 1990, with an additional 10 percent increase effective January 1, 1995.
- The forecast incorporates the impact of recently enacted legislation, most notably Chapter 1126, Statutes of 1996, which requires proof of financial responsibility to be provided in order to register a vehicle. Given the vast scope of this legislation, and uncertainty as to how it will actually be implemented and enforced, the impact of this proposal is impossible to determine at this time. However, for purposes of a revenue estimate,

the forecast assumes that 1 percent of the renewal vehicle base will cease to register due to this requirement. Under this assumption, the 1996-97 loss is estimated to be \$4.0 million in registration fees and \$3.3 million in vehicle license fees, and 1997-98 loss will increase to \$8.2 million and \$7.0 million, respectively.

The forecast also includes \$50 million in 1997-98 for a Governor's Budget proposal to increase various drivers' licensing fees which do not recover all of the Department of Motor Vehicles' collection costs.

Motor vehicle fees revenue is summarized in Figure REV-17.

MOTOR VEHICLE FUEL TAXES - \$2,944,663,000

The motor vehicle fuel license tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Just over one-third of these revenues are apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel license tax (gas tax) is imposed on distributors at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline and other flammable liquids sold for vehicular use on California public streets and highways.

The Motor Vehicle Fuel License Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Exempt from the aircraft jet fuel tax are sales to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

FIGURE REV-17

Motor Vehicle Fees Revenue

(Dollars in Thousands)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
Vehicle License Fees	\$2,551,402	\$2,697,358	\$2,840,569
Realignment	822,905	863,945	909,635
Registration, Weight and Other Fees	1,615,708	1,636,572	1,716,240
Total	\$4,990,015	\$5,197,875	\$5,466,444

funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each effective August 1, 1990. Proposition 111 increased gas and diesel fuel tax rates by an additional 1 cent per gallon each January 1 thereafter until an 18 cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled \$1.337 billion during 1995-96, and are expected to be \$1.388 billion during 1996-97 and \$1.421 billion during 1997-98.

Motor vehicle fuel revenues are shown in Figure REV-18.

PROPERTY TAX REVENUE

Total property tax revenue in 1997-98 is estimated to be \$19.7 billion, with K-14 school districts receiving approximately \$10.1 billion (51 percent).

Under Article XIII A of the State Constitution (Proposition 13), property is assessed at its 1975 fair market value until the property changes ownership. At the time of ownership change, the assessed value of the property is redetermined based on current market value. The fair market value of new construction is established upon completion, and thereafter is not reassessed until there is a change in ownership. The value initially established in 1975, or subsequently redetermined when appropriate, is referred to as the "base year value." A property's base year value may be increased annually by an inflation factor, not to exceed two percent. In addition, the law also provides that a property's assessed value shall be the lower of its factored base-year value (base-year plus inflation) or its current market value.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is imposed on distributors at the terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel, which is destined for highway use, is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax exempt uses, is not taxed.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LNG and LPG, 7 cents per cubic foot for CNG, and 9 cents per gallon for alcohol fuel. Liquefied petroleum gas users may also elect to pay a flat rate of tax based on vehicle weight in lieu of the 6 cent-per-gallon tax.

The Mills-Hayes Act specifies that a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers. This 1 cent per gallon excise tax is imposed in lieu of the other fuel taxes described above.

Gasoline consumption has remained fairly stable over time, as conservation efforts have offset economically driven growth. Gasoline consumption rose 3 percent during 1995-96 and is estimated to increase by 3.9 percent in 1996-97 and by 2 percent in 1997-98. This forecast includes the effects of slightly lower fuel economy associated with the reformulated gasoline mandated to be sold in California beginning in mid-1996.

Because the majority of diesel fuel is consumed by the commercial trucking industry, its consumption is impacted most significantly by the general health of the economy. Diesel fuel consumption increased by 10.7 percent in 1995-96 and is expected to rise by 2.1 percent and 4.6 percent in 1996-97 and 1997-98, respectively.

Proposition 111, enacted in November 1990 to increase transportation

REVENUE ESTIMATES

FIGURE REV-18

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	1995-96 Preliminary	1996-97 Forecast	1997-98 Forecast
Gasoline ^{1/}	\$2,422,051	\$2,518,083	\$2,568,463
Diesel	350,891	358,740	376,200
Total	\$2,772,942	\$2,876,823	\$2,944,663

^{1/} Does not include jet fuel.

The State Constitution also limits the property tax rate to one percent plus an amount for debt approved by the voters prior to June 1978. Proceeds from the one percent rate are allocated to local jurisdictions. On a statewide basis, the distribution is approximately as follows:

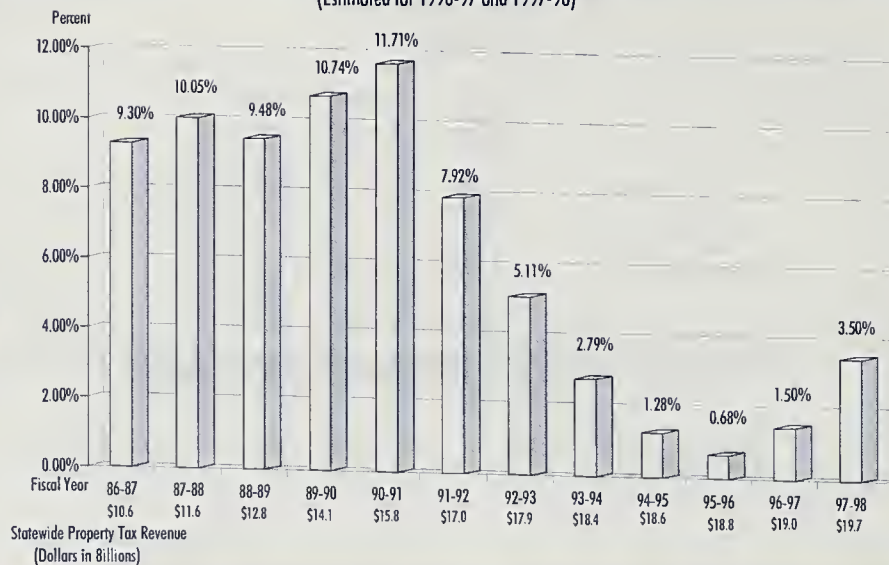
K-14 Schools	51%
Counties	22%
Cities	11%
Redevelopment Agencies	8%
Special Districts (other than Redevelopment)	8%

Property tax growth is estimated using a biannual (November and April) survey of county assessors and auditors, which requests estimates of their county's assessed value growth for the next fiscal year. The estimates submitted indicate a statewide 1996-97 property tax growth rate of 1.5 percent and 3.5 percent in 1997-98. This growth is significantly lower than the statewide growth that occurred in the late 1980s (see Figure REV-19). For purposes of adjusting the 1996-97 property tax roll, the two-percent cap was not reached for the second consecutive year, the first instances of this occurrence since 1983. The actual inflation factor for 1996-97 was 1.1 percent, slightly lower than the prior year. However,

FIGURE REV-19

Assessed Value Growth Since 1986-87

(Estimated for 1996-97 and 1997-98)



it appears that the two-percent limit will be reached for the purposes of adjusting the 1997-98 property tax roll due to improved economic conditions over the past year. Nevertheless, the weakness in the California real estate market over the past five years caused a reduction in the statewide assessment roll of tens of billions of dollars and created significant backlogs in various assessment functions. In 1997-98, it is anticipated that the economic recovery will begin to reverse the downward trend in the real estate market and improve property values.

To maintain the integrity of the property tax system, Chapter 914, Statutes of 1995, provided for a \$60 million loan to eligible counties in 1995-96, 1996-97, and 1997-98 to supplement their existing property tax administration program and process the existing backlogs. The results of the first year of the program indicate that it has been successful in preserving and enhancing the property tax system.

In 1995-96 fiscal year, approximately \$48 million was loaned to 40 participating counties. These counties were able to reduce several backlogs, including requests for appeals and changes in ownership.

FIGURE REV-20

Summary of State Tax Collections
(Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita Personal Income ^{1/2/}	State Tax Collections (Dollars in Millions)		Taxes per Capita ^{1/}		Taxes per \$100 of Personal Income ^{3/}	
		General		General		General	
		Fund	Total	Fund	Total	Fund	Total
1967-68	\$3,849	\$3,558	\$4,676	\$185.55	\$243.86	\$4.82	\$6.34
1968-69	4,165	3,963	5,173	203.94	266.21	4.90	6.39
1969-70	4,512	4,126	5,409	208.96	273.94	4.63	6.07
1970-71	4,774	4,290	5,598	214.08	279.36	4.48	5.85
1971-72	4,991	5,213	6,597	256.22	324.24	5.13	6.50
1972-73	5,394	5,758	7,231	279.72	351.28	5.19	6.51
1973-74	5,871	6,377	7,877	305.57	377.45	5.21	6.43
1974-75	6,463	8,043	9,572	379.85	452.06	5.88	7.00
1975-76	6,975	9,050	10,680	420.19	495.87	6.02	7.11
1976-77	7,688	10,781	12,525	491.48	570.98	6.39	7.43
1977-78	8,402	12,951	14,825	579.41	663.25	6.90	7.89
1978-79	9,423	14,188	16,201	621.30	709.45	6.59	7.53
1979-80	10,605	16,904	19,057	726.83	819.41	6.85	7.73
1980-81	11,799	17,808	20,000	748.80	840.97	6.35	7.13
1981-82	12,939	19,053	21,501	784.78	885.62	6.07	6.84
1982-83	13,515	19,567	22,359	788.83	901.39	5.84	6.67
1983-84	14,261	22,300	25,674	880.14	1,013.30	6.17	7.11
1984-85	15,572	25,515	29,039	988.34	1,124.85	6.35	7.22
1985-86	16,533	26,974	30,898	1,021.63	1,170.25	6.18	7.08
1986-87	17,312	31,331	35,368	1,158.18	1,307.41	6.69	7.55
1987-88	18,207	31,228	35,611	1,126.67	1,284.81	6.19	7.06
1988-89	19,282	35,647	40,613	1,255.49	1,430.39	6.51	7.42
1989-90	20,191	37,248	43,052	1,278.16	1,477.32	6.33	7.32
1990-91	21,259	36,828	43,556	1,229.90	1,454.58	5.79	6.84
1991-92	21,306	40,072	48,856	1,311.04	1,598.43	6.15	7.50
1992-93	21,912	39,197	48,230	1,256.80	1,546.43	5.74	7.06
1993-94	22,144	38,351	48,941	1,216.84	1,552.84	5.50	7.01
1994-95	22,520	41,099	52,133	1,292.83	1,639.92	5.74	7.28
1995-96 ^{p/}	23,717	44,825	54,860	1,398.03	1,711.01	5.89	7.21
1996-97 ^{e/}	24,949	47,226	57,634	1,445.72	1,764.34	5.79	7.07
1997-98 ^{e/}	26,092	49,781	60,641	1,494.52	1,820.56	5.73	6.98

^{1/} Per Capita computations are based on July 1 populations estimates, benchmarked to the 1990 Census.

^{2/} Personal income data are on a calendar year basis (e.g., 1987 for 1987-88).

^{3/} Taxes per \$100 personal income computed using calendar year personal income e.g. 1987 income related to 1987-88 tax collections.

^{p/} Preliminary.

^{e/} Estimated.

FIGURE REV-21

Outline of State Tax System as of
January 1, 1997

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	\$0.20	Equalization ¹	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine	Gallon	\$0.20	Equalization	General
Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Bank and Corporation:				
General Corporation	Net income	8.84% ²	Franchise ³	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	6.65% ²	Franchise	General
Tabacca:				
Cigarette	Package	\$0.37 ⁴	Equalization	Cigarette Tax, Cigarette and Tabacca Products Surtax, and Breast Cancer Act
Other Tabacca Products	Wholesale price	31.20%	Equalization	Cigarette and Tabacca Products Surtax
Energy Resources Surcharge	Kilowatt hours	\$0.0002	Equalization	Energy Resources Surcharge Fund
Horse Racing License	Amount wagered	1.0-6.05%	Horse Racing Board	Fair & Expo ⁵ , Satellite Wagering ⁶ , Wildlife Restoration, and General
Estate	Taxable Federal estate	0.8-16%	Contraller ⁷	General
Insurance	Gross Premiums	2.35% ⁸	Insurance Dept.	General
Liquor license fees	Type of license	Various	Alcoholic Beverage Control	General
Motor Vehicle:				
Vehicle License Fees	Market value	2.0%	Motor Vehicle Dept	Motor Vehicle License Fee and Local Revenue ⁹
Fuel—Gasoline	Gallon	\$0.18	Equalization	Motor Vehicle Fuel ¹⁰
Fuel—Diesel	Gallon	\$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$29.00	Motor Vehicle Dept	Motor Vehicle ¹¹
Weight Fees	Unladen weight	Various	Motor Vehicle Dept	State Highway ¹²
Personal Income	Taxable income	1-9.3%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	7.0%	Franchise	General
Private Railroad Car	Valuation	¹³	Equalization	General
Retail Sales and Use	Receipts from sales or lease of taxable items	5.50% ¹⁴	Equalization	General and Local Revenue

Source: State of California, Department of Finance

¹ State Board of Equalization.² Rate applies to income years beginning on or after 1/1/97.

Minimum tax \$800 per year or \$600 for new businesses with less than \$1 million in gross receipts.

³ Franchise Tax Board.⁴ This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 25 cents per pack for the Cigarette and Tabacca Products Surtax, and 2 cents per pack for the Breast Cancer Act. An equivalent tax is levied on other tabacca products.⁵ For support of county fairs and other activities.⁶ For construction of Satellite Wagering Facilities and health and safety repairs at fair sites.⁷ State Contraller's Office⁸ Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.⁹ For return to cities and counties. Trailer coach license fees are deposited in the General Fund.¹⁰ For administrative expenses and apportionment to State, counties and cities for highways, airports and small craft harbors.¹¹ For support of State Department of Motor Vehicles, California Highway Patrol, other agencies and motor vehicle related programs.¹² For state highways and State Department of Motor Vehicles administrative expense.¹³ Average property tax rate in the state during preceding year.¹⁴ Includes a 5 percent rate for the State General Fund and Transportation Fund and a 0.50% rate to the Local Revenue Fund for realignment.

FIGURE REV-22

Comparative Yield of State Taxes, 1970-71 through 1997-98
Includes both General and Special Funds
(Dollars in Thousands)

Year Ending June 30	Sales and Use	Personal Income	Bank and Corporation (a)	Tobacco (b)	Estate Inheritance and Gift (c)	Insurance (d)	Alcoholic Beverage (e)	Horse Racing (f)	Motor Vehicle Fuel (g)	Vehicle Fees (h)
1971	\$1,808,052	\$1,264,383	\$532,091	\$239,721	\$185,699	\$158,423	\$106,556	\$64,601	\$674,635	\$513,202
1972	2,015,993	1,785,618	662,522	247,424	220,192	170,179	112,091	69,380	712,426	547,845
1973	2,198,523	1,884,058	866,117	253,602	260,119	179,674	114,884	72,693	746,196	596,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	78,289	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	86,637	752,234	664,453
1976	3,742,524	3,086,611	1,286,515	268,610	316,648	241,224	125,313	96,117	766,555	749,936
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	102,702	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	111,591	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	140,059	112,856	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	138,940	127,002	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	142,860	129,779	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	139,523	119,626	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	136,209	120,159	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	141,001	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	135,786	133,814	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	131,592	1,194,172	2,515,295
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	131,733	1,245,881	2,692,835
1988	11,650,531	12,950,346	4,776,388	250,572	304,148	1,158,321	128,734	132,208	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	559,617	335,091	1,317,630	128,264	143,379	1,320,512	3,142,484
1990	13,917,771	16,906,568	4,965,389	787,076	388,527	1,167,684	128,524	147,920	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	498,774	1,287,152	129,640	148,279	1,999,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	130,042	2,457,229	4,369,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,188,181	292,107	114,037	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,196,921	275,797	118,215	2,547,633	4,518,795
1995	16,271,846	18,608,181	5,685,618	674,727	595,238	998,868	268,957	109,611	2,685,731	4,749,594
1996 (i)	17,524,528	20,875,045	5,862,327	666,779	659,337	1,131,737	269,227	106,057	2,774,306	4,990,015
1997 *	18,328,285	22,660,000	5,795,100	656,800	645,000	1,124,000	264,200	84,702	2,878,223	5,197,875
1998 *	19,286,544	24,240,000	5,860,000	655,234	655,000	1,196,000	262,100	73,778	2,946,063	5,466,444

(a) Includes the corporation income tax and, commencing with 1989 data, the unitary election fee.

(b) Proposition 99 (November 1988) increased the cigarette tax to \$0.35 per pack and added an equivalent tax to other tobacco products. The Breast Cancer Act added \$0.02 per pack effective January 1, 1994.

(c) Proposition 6 (June 1982) repealed the inheritance and gift taxes and imposed an estate tax equal to the maximum allowable federal estate tax credit effective for decedents dying on or after June 8, 1982.

(d) The conclusion of litigation resulted in additional revenue of \$51 million in 1987-88, \$178 million in 1988-89, \$7 million in 1990-91, \$5 million in 1991-92, in refunds of \$46 million in 1993-94, and in refunds of \$200 million in 1994-95.

(e) Alcoholic beverage excise taxes were significantly increased effective July 15, 1991.

(f) Beginning in 1988-89, includes revenues from satellite wagering that were not included in prior years.

(g) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(h) Registration and weight fees, motor vehicle license fees, and other fees.

(i) Same figures for 1996 may be preliminary.

* Estimated.

DEMOGRAPHIC OUTLOOK

Although California continues to experience some net outflow of domestic migrants to other states, it appears that the trends are changing. It is expected that California will soon once again be gaining migrants from other states. Just as the migration flows out of California lagged behind the sagging economy, the population gains due to an improved economy are also lagging. Population growth rates in 1997-98 will reflect levels closer to those of the early 1990s rather than levels of the recent past. California is expected to remain strong throughout the decade, reflecting the improved economic climate. The June 1996 population projection forecasts an increase in fiscal year 1997-98 of 1.9 percent (more than 634,000 persons) and annual average gains of around 1.8 percent through the turn of the century.

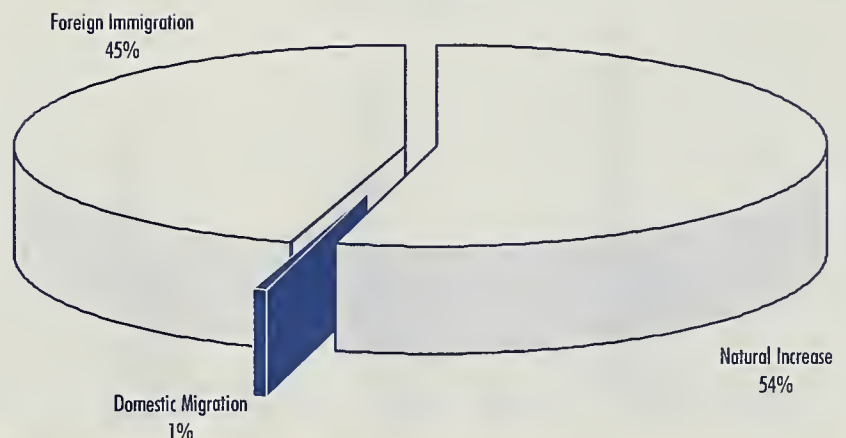
The components of population change in 1997-98 are natural increase (births minus deaths) of 342,000, and net migration of 291,000, with 5,000 domestic migrants and 286,000 foreign immigrants, which results in a total population of 33.9 million California residents in July 1998. (See Figure DEM-1) Births and deaths will vary

little in the next few years; however, increases are anticipated in the State's net migration. Foreign immigration has slowed to 260,000 in recent years but is expected to return to the 290,000 level through the year 2000. Although California had been experiencing a net loss of migrants to other states, in 1996-97 it is anticipated that the net domestic migration flow will be zero. In the future, it is expected that continued gains in the California economy will

cause more persons to move to California and fewer to leave to reside in another state, reversing the negative trends of the early 1990s. Since 1990, the overall population has grown by 7.1 percent. However, the growth rates differ significantly by age group. While the working-age (18-64) population increased by 4.1 percent, those less than 18 years old grew by triple that rate and the older populations expanded by

FIGURE DEM-1

Components of Population Change 1997-1998



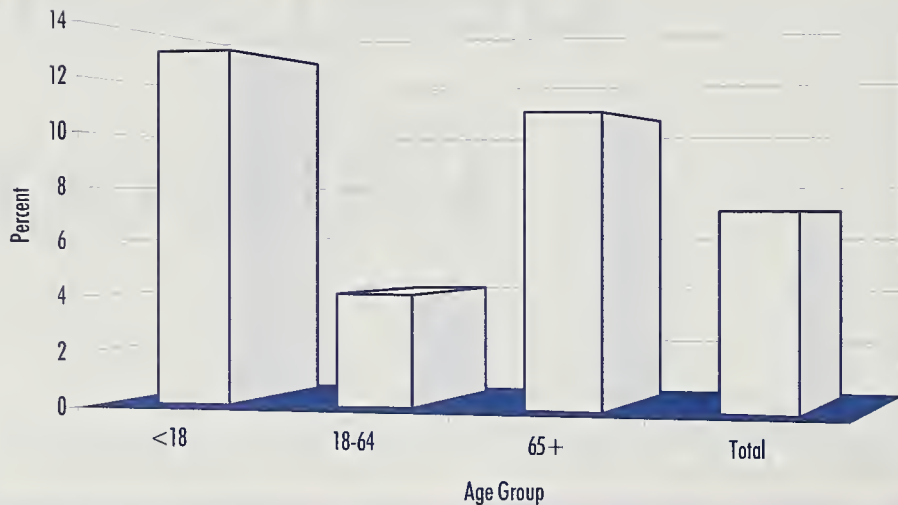
DEMOGRAPHIC OUTLOOK

10.6 percent. (See Figure DEM-2) At the same time, the race/ethnic mix of the State continued to diversify, with more than half of the babies in the State being born to non-white women and continued high levels of foreign immigration.

In Fall 1995, graded public school enrollment grew by 2.4 percent, or by nearly 126,000 students, to reach 5.4 million. This reversed recent declines in the growth rate. Similar to overall population trends, the State's public school enrollment slowed beginning in 1990-91. The growth rate fell from 3.7 percent in 1990-91 to less than 1.5 percent in 1994-95 and the annual number of new students dropped from more than 173,000 to less than 76,000. School enrollment continues to grow faster than the total population, reflecting the increase in births that occurred during the 1980s. Annual growth is expected to average 109,000 new students per year through the remainder of the decade, slowing gradually through 2000-01, then rising again after the turn of the century.

FIGURE DEM-2

California Population Growth by Age: 1990-95



ELEMENTARY & SECONDARY EDUCATION

A high-quality education for the 5.6 million children in California's K-12 public schools continues to be the highest priority of the Administration. The ability to master the basic skills of reading and mathematics is the foundation of future success. The Governor remains committed to the Class Size Reduction Program, the historic reform enacted last year, as well as continuing other reform initiatives. As indicated in Figure K12-1, almost \$35.8 billion will be devoted to California's 999 school districts and 58 county offices of education. Figure K12-2 displays the various sources of revenue for schools.

Strength in projected state revenues in 1997-98 has contributed to a 7.6 percent increase in state General Fund support for K-12 education, which allows sufficient resources for schools to receive a statutory cost-of-living adjustment (COLA) for revenue limit apportionments, special education, and child development. The COLA rate is currently estimated at 2.53 percent. This level of resources results in a 1996-97 local assistance (Proposition 98) K-12 per pupil expenditure level of \$4,820, growing to \$5,010 in 1996-97 (see Figure K12-3). Total per pupil expenditures from all

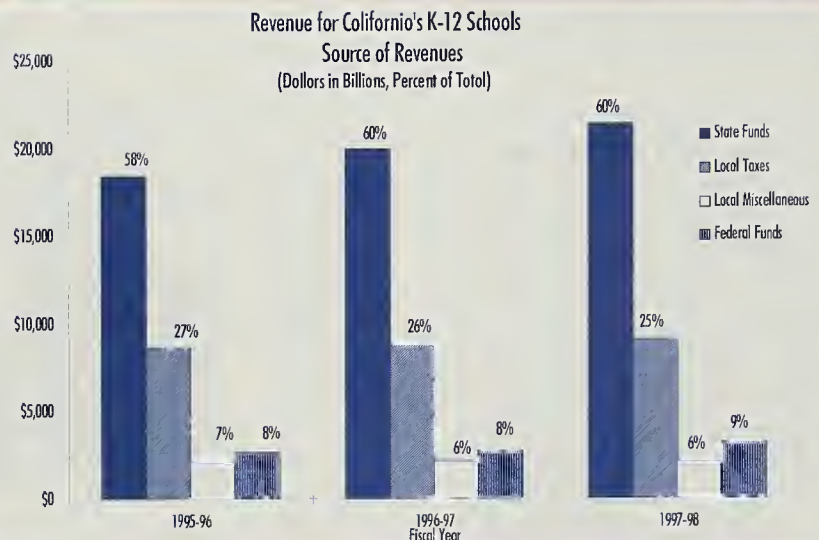
FIGURE K12-1

Total Revenue for K-12 Education (Dollars in Millions)								Change	
Source of Funds	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97 ^{1/}	1997-98 ^{1/}	Amount	Percent
State General Fund ^{2/}	\$16,280	\$16,250	\$14,896	\$15,658	\$17,691	\$19,277	\$20,736	\$1,459	7.6%
Lottery Fund	399	501	556	643	691	582	582	—	—
Other State Funds	115	47	50	53	53	113	72	-41	-36.1%
Federal Funds	1,983	2,137	2,329	2,523	2,645	2,746	3,210	464	16.8%
Local Property Taxes	5,319	6,475	8,246	8,573	8,652	8,784	9,079	295	3.4%
Local Debt Service	317	364	360	360	360	360	360	—	—
Local Miscellaneous	1,733	1,713	1,757	1,751	1,751	1,751	1,751	—	—
Total Revenue	\$26,146	\$27,487	\$28,194	\$29,561	\$31,843	\$33,613	\$35,790	\$2,177	6.5%
Unduplicated ADA	5,230,639	5,375,833	5,468,024	5,542,886	5,696,321	5,836,495	5,976,269	139,774	2.4%

^{1/} Estimated.

^{2/} State General Fund is adjusted to reflect local expenditures for the year in which the funds were received.

FIGURE K12-2



ELEMENTARY EDUCATION

FIGURE K12-3

**K-12 Funding per Pupil
Proposition 98 and Related Funding
(Dollars in Thousands)**

	1995-96	1996-97	1997-98
General Fund	\$16,086,817	\$17,542,725	\$18,919,837
Local Revenue	8,574,922	8,727,211	9,027,507
Total	\$24,661,739	\$26,269,936	\$27,947,344
Proposition 98 ADA	5,320,064	5,450,480	5,578,346
Dollars Per ADA	4,636	4,820	5,010

sources will be \$5,759 in 1996-97 and \$5,989 in 1997-98.

Funding reported by schools from their general fund, the various categories of expenditure, along with the respective shares of total funding for each category, are displayed in Figure K12-4. All costs shown are those reported to the State by schools using the definitions specified in the California School Accounting Manual.

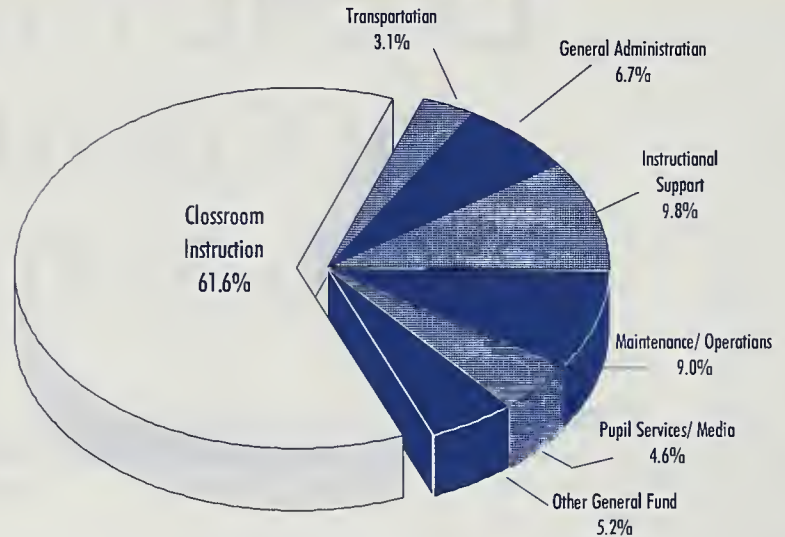
It is projected that growth in Proposition 98 overall (for both K-12 and community colleges) will account for 61 cents of each new tax dollar in 1997-98, as illustrated by Figure K12-5.

GOVERNOR'S INITIATIVES

In 1997-98, the Administration continues to emphasize instructional improvement and academic achievement. The Class Size Reduction Program will be expanded to include four full grades; the reading initiative will be extended to provide new instructional techniques for teachers in grades four through eight, and there will be a new focus on how best to provide instruction in mathematics. The Budget will also continue prevention and school safety

FIGURE K12-4

Where Schools Spend Their Money



Classroom Instruction includes: general education, special education, and special projects.

General Administration includes: superintendent and board, district administration, other administration, centralized EDP, and maintenance operations for administration.

Instructional Support includes: instructional administration, school site administration, and special projects administration.

Maintenance and Operations includes: utilities, janitorial and groundskeeping staff, and routine repair and maintenance.

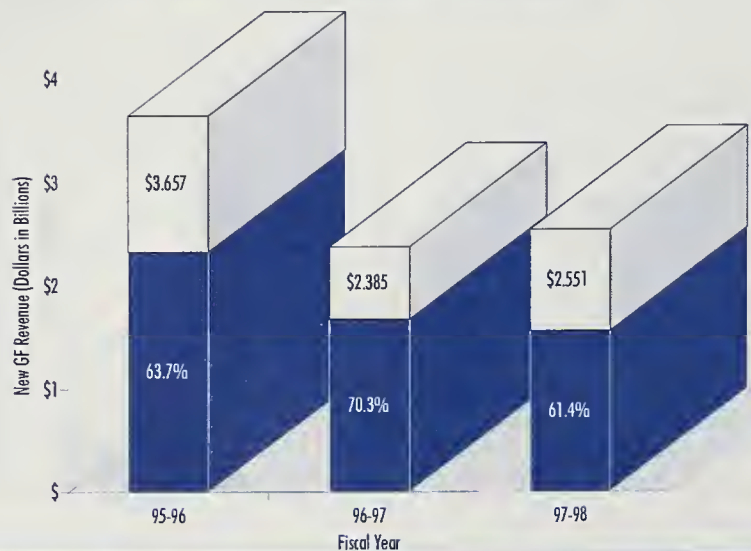
Pupil Services includes: counselors, school psychologists, nurses, child welfare, and attendance staff. Media includes libraries and media center.

Other General Fund includes: spending for tuition, facilities, contracts with other agencies, and transfers to and from other district funds.

(Based on 1994-95 data reported by schools.)

FIGURE K12-5

**Proposition 98 Increase
as a Percentage of
New GF State Appropriations Limit Revenue**



programs which have already been initiated and expanded.

IMPROVING INSTRUCTION

Class Size Reduction, Grades K-3.

This Program was established by Chapter 163, Statutes of 1996, which appropriated \$771 million in 1996-97 as incentive funding to encourage districts to reduce class sizes in three grades by reducing grades one and two and either kindergarten or grade three. For the current school year, the California Department of Education reports that there was an overwhelming response from districts to participate in this new program. Ninety-five percent of the eligible districts have elected to participate in the program. The total amount claimed to date is \$631 million. The remaining \$140 million is proposed for redirection to the Class Size Reduction Facilities Funding Program (see below).

To fulfill the Administration's commitment to fully implement the program in Kindergarten through third grade, the Budget includes an augmentation of \$304.3 million. Under current law, districts can receive funding for only three grades and must choose either Kindergarten or grade three at any single site. With this augmentation, plus the base adjustment needed to reflect the higher than expected number of classes reduced to 20 for the entire school day, the State is providing a total of \$1.259 billion for this program. Due to the statutory COLA, the per-pupil incentive rates will increase to \$666 for full-day programs, and \$333 for half-day programs. Full funding of the program will allow over 1.9 million pupils to benefit from a higher quality instructional setting.

In addition to the incentive funding for operation of the Class Size Reduction Program, the Class Size Reduction Facilities Funding Program provided \$200 million in 1996-97 for grants to districts to mitigate the effects of Class Size Reduction on school facilities. Requests for these funds exceeded the amount available. The Administration has proposed urgency legislation to provide \$151 million to fully fund all 1996-97 requests for facilities grants of \$25,000 each for a total of \$351 million for 14,000 new classes needed this year. The Governor also supports a statewide school bond to provide additional grants and to increase the current grant amount for the facilities program. These funds will provide funding for additional space needed to further expand the implementation of the Class Size Reduction Program.

Beginning Teacher Support and Assessment (BTSA) Program. An augmentation of \$10 million is included for the BTSA Program, which is designed to enhance professional success and retention of new teachers, and to provide collaboration and continuity in teacher education and instruction. This augmentation will help address the training needs of teachers newly hired for the Class Size Reduction Program. The augmentation brings the total program level to \$17.5 million, which will serve a total of 5,300 new teachers.

Student Academic Partnership Program. The Budget includes \$5 million for grants to hire college students to tutor elementary school pupils in approximately 100 elementary schools. The program would provide several benefits such as tutoring pupils in grades Kindergarten through six, providing jobs for college students, and

encouraging college students to become teachers.

The Commission on Teacher

Credentialing. The Commission will play an instrumental role in issuing credentials for an estimated 32,000 new teachers that will be needed to fully implement the Class Size Reduction Program. To support this effort the Budget includes:

- ◆ \$4.5 million in Proposition 98 General Fund for both 1996-97 and 1997-98 for the expansion of the Alternative Certification Program, which allows teacher candidates to complete teacher preparation requirements while holding a full-time teaching position and \$90,000 from the Teacher Credential Fund to facilitate the proposed \$10 million expansion of the BTSA Program.
- ◆ \$206,000 in 1996-97 for 7.8 positions in response to immediate workloads associated with processing credential applications in a timely manner, and \$1 million in 1997-98 from the Teacher Credentials Fund for 15.3 positions for increased workload associated with issuing credentials and for programs which both support the Governor's Reading Initiative and facilitate the implementation of the Class Size Reduction Program.

Improvement in Reading and Math.

To further the goal of improving pupil achievement in reading in the elementary grades, the Governor proposed a major initiative to implement the recommendations of the California Reading Task Force. This \$200 million initiative, implemented in 1996-97, provided \$152 million for new instructional materials; the balance was dedicated to programs to strengthen teacher preparation and in-service training.

ELEMENTARY EDUCATION

To continue current efforts to improve reading achievement into 1997-98, the Budget proposes \$57.5 million available from Federal Goals 2000 funding. These funds would support the following:

- ◆ \$5.6 million to make reading staff development available to 8,000 new K-3 teachers who will be teaching in public schools when the K-3 Class Size Reduction Program is fully implemented as proposed in this Budget. The program would provide approximately \$700 per teacher to address skills development called for in the California Reading Task Force.

- ◆ \$46.4 million to expand the existing reading initiative by providing staff development to teachers who teach reading in grades four through eight. Many students in these grades were not taught sufficient basic reading skills and their potential for future success may be severely limited. While other initiatives address the K-3 age group, there is currently no program specifically targeted to correct the reading deficiencies of older students. The program would provide approximately \$700 per teacher, and would address the teaching of basic reading skills in addition to reading skills appropriate to pupils in grades four through eight such as vocabulary development, subject matter reading, and reading comprehension.

- ◆ \$4 million to continue grants started in 1996-97 or to develop new partnerships between school districts and higher education for the purpose of improving pre-service preparation of K-3 teachers in the area of reading.

- ◆ \$500,000 to assist the Department of Education in developing and distributing reading documents, including a handbook and other resources to guide schools in implementing a balanced comprehensive language arts program.

- ◆ \$300,000 to assist the Department of Education in printing and distributing several new curriculum frameworks including the English-Language Arts and the Mathematics frameworks which are being developed on an accelerated schedule.

- ◆ \$660,000 for the Commission on Teacher Credentialing to complete development of an assessment of teachers' reading competency.

To further achievement in mathematics, the Budget includes \$2.4 million, available from Federal Goals 2000 funding, to continue implementation of the Mathematics Task Force recommendations. These funds would be used to begin a comprehensive mathematics leadership program to provide professional development for teachers and administrators throughout the State to achieve a proper balance of basic skills, conceptual understanding, and problem solving in the teaching of math. \$250,000 will be used to expand, through case reviews, a study initiated in 1996-97 to assess methods to strengthen math instruction in grades K-12.

Pupil Assessments. The new pupil testing program, the California Assessment of Academic Achievement, authorizes two types of activities: the first is an incentive program for local testing in grades two through ten intended for all school districts to provide valid, reliable, and comparable individual student scores to parents and teachers; the second is the development of a statewide

assessment instrument that would provide school- and district-level scores.

The Budget proposes a \$3.1 million augmentation, for total funding of \$23.2 million, to support the anticipated level of participation in the local incentive testing program, which will provide individual student scores. The Budget also proposes an augmentation of \$6 million, for total funding of \$12 million, to develop the statewide assessment instrument. This funding level is sufficient to pay one-half the cost of developing the test for all the required grades and content areas, and would continue in the 1998-99 Budget. This funding will enable development and administration of a state exam consistent with statutory timelines.

Golden State Examination and Golden State Seal Merit Diploma.

The Golden State Seal Merit Diploma establishes an honors diploma to recognize high school graduates who have mastered the high school curriculum as demonstrated by exams in at least six core subject areas. The Budget provides a \$1.7 million augmentation, for total funding of \$6 million, to support the anticipated number of students seeking a Golden State Seal Merit Diploma.

Single Gender Academies Pilot. The Governor's Budget proposes \$5 million to fund the second year costs associated with this program. Single Gender Academies are designed for students who have a high probability of doing poorly or dropping out of school. These pilot schools will emphasize parental involvement and mentoring, as well as fostering community and business partnerships.

Implementing Welfare Reform

The new Child Care and Development Block Grant (CCDBG) resulting from federal welfare reform provides an opportunity for the State to make child care available to more low-income families, and enhance the quality of child care services. These efforts will include the following:

Increased Child Care Services for Low-Income Families. The demand for child care will increase as more welfare recipients work toward self-sufficiency. California will use the increased funding available through the Personal Responsibility and Work Opportunity Act of 1996 to increase child care services for welfare recipients, those transitioning off welfare, and those at risk of needing welfare assistance. An additional \$53.7 million from the CCDBG will enable the State to expand child care availability and provide over \$28 million for direct services for an additional 11,200 children in 1996-97. In the 1997-98, the \$79.5 million increase in federal funds will provide \$70.7 million for direct services for an additional 8,200 children (for a total two-year growth of 19,400 children), strengthen the quality of care provided through a diverse mix of care providers, provide consumer education to parents about quality child care, and establish uniform eligibility rules which will contribute to a seamless system for low-income families.

Expanded Quality Assurance.

\$3 million in 1996-97 and \$7.6 million in 1997-98 will strengthen the quality of care by providing ongoing funding for the Trustline Registry, which ensures that license-exempt providers do not have disqualifying criminal backgrounds, and increased support of local child care planning councils to guide the expansion of

child care availability at the local level, including high quality, center-based care for preschool-aged children.

Meeting State Staffing and Reporting Requirements.

The Budget proposes \$585,000 in 1996-97 and \$1.2 million in 1997-98 in federal funds for 13 new positions, and associated costs to support the workload inherent in additional direct service contracts, directing quality assurance activities, and meeting significantly increased federal reporting requirements. In addition, \$2 million is proposed in 1996-97 for consulting services to determine data processing needs associated with the greatly increased reporting requirements of the new block grant. To meet the costs of these system enhancements when the needs are more fully known, \$20 million will be held in reserve. Also, \$781,000 in General Fund will increase Child Development Division staff to allow for improved fiscal monitoring and increased technical support to contractors; this increase is consistent with General Fund program changes over the past several years.

Child Care Facilities Expansion.

\$15 million in one-time Proposition 98 funds will provide portable classrooms to replace the estimated 100 classrooms which are now needed for class size reduction, and an additional 57 classrooms to accommodate expansions for both new capacity funded by the increase in federal child care funds as well as recent General Fund preschool-age child care increases. These funds will be used to finance the initial cost of the facilities, and will be repaid to a revolving fund over time by the providers. In this way, an ongoing fund source for facilities would be available to finance expansion of child care capacity in the future.

Prevention

Academic Volunteer and Mentor Service Program.

The Budget provides funds totaling \$10 million, which includes \$5 million in continued funding to 76 local education agencies plus an additional \$5 million to double the program. This program, managed by the Office of Child Development and Education (OCDE), seeks to match at-risk children and youth with caring adult role models. One-to-one mentoring can provide positive guidance and result in improved school behavior and academic progress. To enable OCDE to effectively manage the proposed \$10 million program, a \$200,000 augmentation for support operations is included from funds available from Federal Goals 2000.

Family-School Partnerships.

The Governor's Budget proposes Federal Goals 2000 funds for a \$1.5 million grant program for school districts to forge family-school partnerships. These grants will be used to coordinate parent and community volunteer services, to prepare parents to serve as integral partners in educational reform, and to provide information and training for parents and educators on how to support student learning. The Governor's Budget also includes \$562,000 in state operations funding to enable the State Department of Education to increase statewide efforts to establish successful family-school partnerships.

Preschool Program and General Child Care Expansion.

A cornerstone of the Governor's prevention agenda is to provide high-quality preschool programs for children of low-income families. The Administration proposes \$10 million for the purpose of providing full-year funding for the augmentation of programs for three and four year olds in the State Preschool and General Child

Care Program. This completes the \$20 million expansion begun in 1996-97, and will provide services to approximately 2,600 additional children in State Preschool, for a total of approximately 54,000 children, and will allow enrollment of an additional 2,600 children in General Child Care, for a total of 70,000 children. This augmentation will help prepare preschool children for school and provide social skills development.

Early Mental Health. This school-based program will continue to provide intervention and prevention services to children at risk of school failure to enhance their educational, social, emotional, and mental health development. Funding is provided for up to three years, after which local education agencies are encouraged to continue the programs with local funding; approximately 65 percent of these agencies do so. To date, funding has been provided to approximately 434 programs to serve a cumulative total of about 155,000 children. The 1996-97 Budget includes \$12 million in Proposition 98 funding for 214 programs to serve an estimated 36,000 children. The 1997-98 Budget includes an additional \$3 million to establish approximately 57 new programs which will serve an estimated 9,000 additional children.

Healthy Start. The Governor's Budget proposes the continuation of \$49 million for the Healthy Start Program. This program coordinates and integrates health and social services for children at school sites. Approximately 80 new three-year operational grants and 110 new two-year planning grants will be awarded in 1997-98. Since the beginning of the program in 1991-92, operational grants have been awarded for programs in 650 schools,

and planning grants have been awarded for programs in 916 schools.

Fiscal Accountability and Integrity of Data

Principal Apportionment System.

The Governor's Budget includes \$1.4 million to begin development of a new automated system to determine school district apportionments. The existing system, which allocates over \$12 billion to local education agencies each year, is obsolete, difficult to modify and maintain, and has an increasing likelihood of misallocating funds. The new system will make the apportionment of funds to school districts more timely and accurate.

Fiscal Crisis Unit. The Governor's Budget provides an additional two positions for the Department of Education to work with financially distressed districts. This will enable the Department to take a more proactive role in identifying at-risk districts and offer in-depth technical assistance to help districts avoid financial insolvency.

Improve Financial Data Collection/Maintain Internet Website. An additional \$500,000 has been provided to the Fiscal Crisis and Management Assistance Team to support an on-line interactive data base through the Internet, which would allow local education agencies, as well as state policymakers, to capture school district financial data and make comparisons among selected school districts and county offices of education.

Technology

California School Information Services Consortium via the Fiscal Crisis and Management Assistance Team (FCMAT). The Governor's Budget includes \$10 million to begin piloting and implementing the California School Information Services (CSIS) project to electronically exchange school information and develop standards for data management. Eight-hundred thousand dollars of this amount is earmarked for Student Friendly Services Through Technology. This project will be administered by FCMAT, which is a team of persons having extensive experience in school district budgeting, accounting, and data processing.

High School Educational Technology Grants. The Governor's Budget proposes \$50 million to begin the Governor's High School Educational Technology Initiative. The first year of funding will provide grants on a competitive basis for as many as 100 high school campuses to establish comprehensive educational technology projects. The grants will provide a significant influx of funding to fully integrate technology into the curriculum. First-year projects will be chosen to reflect the diversity of high schools throughout the state, and the high school's ability to act as a model for projects funded in future years. Through a local match requirement, including the value of donated computers and commitments from private industry, the grant funds will be leveraged to provide an initial \$600 per average daily attendance (ADA), or for the average size high school, a \$1 million total project. Funding will be provided in subsequent years to maintain and upgrade the projects, and to provide initial grants to all high schools in the state within four years.

Donated Computer Program. The Governor's Budget includes \$10 million from Federal Goals 2000 funding to continue the Donated Computer Program. This program provides funds for computer parts necessary to repair and upgrade donated computers which are repaired through vocational training programs at community colleges and correctional facilities. The refurbished computers are donated to K-12 schools. This augmentation is expected to provide parts necessary to upgrade and repair over 50,000 computers during the upcoming year for use by California's school children.

Regional Technology Center Demonstration Projects. The Governor's Budget includes \$2 million for the Kern and San Luis Obispo Counties Superintendents of Schools to jointly establish a telecommunications network. This project will serve as an example of how local education agencies can share resources and data. The Budget also proposes \$1 million to assist in the establishment of a regional technology hub in San Diego County. The center, a demonstration model, would provide staff development, training and technical support, act as a clearinghouse for resources, facilitate experimentation, and provide distance learning and connectivity throughout the county's 43 school districts.

Funding Reform

Special Education Funding Reform. The federal government is expected to provide an estimated \$78.1 million increase in funding for the 1997-98 program. Normally, such an increase would create an equivalent amount of Proposition 98 savings because, under the State's entitlement formula, federal funds are an offset to total General Fund

spending. The Budget proposes to forego these savings and, after providing \$1.4 million in added support for departmental efforts to ensure program accountability, appropriate the remaining \$76.7 million for legislation to reform the special education funding system. Reform is needed to reduce the inequities and complexities of the current funding system and to eliminate financial incentives related to special education placements. The Administration anticipates working jointly with the Superintendent of Public Instruction and special education representatives on this legislative proposal.

Integration Funding Reform. Current law authorizes funding for two types of school district integration programs; those that are court-ordered, and those that are voluntarily adopted by districts. For the former, the 1996-97 Budget includes \$448.4 million and for the latter, \$97.1 million. With respect to court-ordered programs, districts face restrictions imposed by the courts which limit flexibility over the types of programs offered and students served. For districts with both court-ordered and voluntary programs, many aspects of their voluntary programs are restricted as well, because the voluntary programs, in most cases, pre-dated the court orders and these orders relied on their continued operation.

For districts without court orders, the Budget proposes more flexibility so that districts can redesign their programs to meet higher program priorities such as providing services to all students in need of compensatory education. Therefore, the Budget proposes that statutes governing voluntary integration programs be repealed, and that the funds be shifted to the

Economic Impact Aid (EIA) Program. Like voluntary integration, the EIA Program is targeted to disadvantaged students; however, the EIA Program affords more flexibility in its program offerings. This proposal will not affect the level of funding received by any individual district in 1997-98. For those districts with both court-ordered and voluntary programs, the Budget proposes that statute be amended to merge the funds received for voluntary programs into the court-ordered programs, since the total funding received in those districts is already supporting efforts directed by the courts.

School Construction

\$2 billion School Bond. The Governor supports enactment of a \$2 billion school bond at the next general election. The demand for new school facilities over the next several years will be most effectively met through a partnership between the state and local school districts, with a greater level of local control and flexibility over school construction projects. Therefore, this bond will not be allocated pursuant to the Lease Purchase Program, but by a new method that will be specified in the bond measure. The bond measure will provide \$2 billion for: grants to districts to be allocated statewide based on a simplified formula for growth and renovation needs; and grants to school districts for facilities related costs associated with implementing class size reduction.

Highlights of the K-12 Budget

In addition to the Governor's initiatives described above, the following significant adjustments are proposed for 1996-97:

ELEMENTARY EDUCATION

- ◆ Statutory growth of \$455.8 million for school district and county office of education apportionments.
- ◆ Cost-of-living adjustment of \$597.7 million for revenue limit apportionments, Special Education, and Child Development, at a rate of 2.53 percent.
- ◆ Augmentation for Child Development Programs of \$13.1 million in recognition of both the federal and state minimum wage increases.
- ◆ Statutory growth of \$74.5 million for the Special Education Program.
- ◆ Base reduction of \$26.4 million due to completion of the five-year School Restructuring Program.
- ◆ Increase of \$14.8 million to pay for higher ongoing costs of existing mandates as well as new programs determined by the Commission on State Mandates to be reimbursable mandates.
- ◆ \$1 million to expand the Advancement via Individual Determination (AVID) Program, an outreach program for students that do not traditionally choose to attend post-secondary education.
- ◆ \$6.4 million for a model program serving at-risk youth.
- ◆ \$3.9 million total funding for a longer year pilot program.

Proposition 98 Funding Guarantee

- ◆ An upward revision to the 1996-97 Proposition 98 guarantee results in an increase of approximately \$342 million in 1996-97 Proposition 98 General Fund. Language in Chapter 203, Statutes of 1996, specifies that any additional Proposition 98 funds available for appropriation in 1996-97 and subsequent years be allocated on a 50-50 basis for school district equalization and deficit reduction. This amount is calculated after giving community colleges their share of the increase, and after making adjustments for continuous appropriations. The estimated amount to be allocated for equalization and deficit reduction pursuant to the trailer bill for 1996-97

is \$304 million; in 1997-98, this amount is \$312 million.

- ◆ In 1997-98, the total Proposition 98 guarantee is estimated to increase \$1.91 billion or 6.5 percent, over 1996-97. The General Fund contributes about 67 percent of the total guarantee (see Figure K12-6).
- ◆ The General Fund share of the Proposition 98 guarantee has increased by \$261 million in 1995-96, primarily due to increased ADA. After providing \$171 million for statutory growth in K-12 apportionments and \$25 million to community colleges, the remaining increase has been allocated for a variety of programs discussed above.

FIGURE K12-6

Proposition 98 (Dollars in Thousands)

Proposition 98 Appropriation	1995-96	1996-97	1997-98
State General Fund	\$17,742,864	\$19,419,699	\$20,985,539
Local Revenue	9,923,017	10,096,406	10,443,311
Total	\$27,665,881	\$29,516,105	\$31,428,850
State General Fund Distribution			
Department of Developmental Services	\$16,179	\$15,202	\$13,181
Department of Mental Health	15,400	15,400	18,400
Department of Youth Authority	44,894	44,641	43,374
Department of Education	16,102,699	17,558,930	18,933,042
California Community Colleges	1,463,692	1,635,526	1,777,542
Loan Repayment	100,000	150,000	200,000
Total	\$17,742,864	\$19,419,699	\$20,985,539
Proposition 98 Appropriations			
Percentage Share of General Fund			
SAL ^{1/} Revenues and Transfers	39.3%	40.8%	41.9%

^{1/} State Appropriations Limit, Article XIII B.

HIGHER EDUCATION

UC, CSU, COMMUNITY COLLEGES AND FINANCIAL AID

California's higher education system, composed of the University of California (UC), California State University (CSU) and California Community Colleges (CCC), remains a cornerstone in the State's economy and represents one of our greatest strengths. As California faces increasing competition from the global marketplace, the maintenance of a strong higher education system and an educated workforce will continue to fuel California's economic achievements.

As home to the nation's finest colleges and universities, California continues to reap the benefits of its high-quality educational institutions. The research conducted in our universities has expanded the frontiers of knowledge and helped the State's economy continue to grow; our colleges and universities train more than ten percent of the nation's classroom teachers; and more of our State's faculty are added to the ranks of the Nobel Laureates each year. As the 1997-98 Budget illustrates, the Administration remains committed to maintaining the quality of higher education and maintaining

access, for all Californians, to our public colleges and universities.

Compact With Higher Education

The 1997-98 Budget represents the third year of the four-year compact with UC and CSU to strengthen their budgets and ensure their continued excellence. The plan includes the following elements:

- ◆ General Fund increases of two percent the first year, and an average of four percent in the following years; there are additional increases for contractual obligations such as debt service and annuitant benefits.
- ◆ Enrollment growth averaging one percent annually to increase student access.
- ◆ Increased portability and transferability of classes among the UC, CSU and CCC.
- ◆ Continued increases in productivity and efficiency with new savings of \$10 million annually at UC and CSU.

- ◆ High priority on reduced graduation times and on restoring faculty salaries to competitive levels.

- ◆ Annual funding for capital outlay of approximately \$150 million for each segment.

The 1997-98 Budgets for UC and CSU provide state funding increases pursuant to the compact, and reflect increased enrollments consistent with the compact. In addition, the Budget provides funding to avoid ten-percent fee increases at UC and CSU for the third year in a row. The Administration remains committed to maintaining college affordability, and is interested in working with UC, CSU, and the Legislature to develop a new long-term student fee policy.

Current fee levels at UC, and at CSU in particular, continue to be moderate in comparison to similar institutions, and students will still pay only a fraction of the total cost of their education. The bulk of the cost of education is subsidized by the State. For UC, the 1997-98 cost of education for a general campus student (using the methodology developed by the California Postsecondary Education Commission) will be \$14,362; the State General Fund subsidizes

HIGHER EDUCATION

63 percent of this cost of education. For CSU, the average cost of education will be \$9,665; the State General Fund subsidizes 76 percent of this cost. For CCC, the State General Fund and local tax subsidy is over 92 percent of the \$3,759 cost of education.

For CCC, the Budget includes extra growth and a full cost-of-living adjustment (COLA) for both general apportionments and categorical programs. Regular enrollment fees for CCC remain at \$13 per credit unit—the lowest in the nation and less than 30 percent of the national average.

Additional augmentations and new programs for all three segments are discussed below.

The 1997-98 Governor's Budget proposes a variety of seismic and life safety, infrastructure, and construction projects to be financed from a total of \$485.7 million in existing General Obligation (GO) Bond Funds. In addition, the Administration, UC, and CSU together are

seeking ways to streamline the capital project approval and administration process to reward successful project management by providing flexibility and authority—within legislatively approved parameters of budget and scope—needed to manage their capital projects.

Enrollments for 1997-98 are indicated in Figure HIED-1. Total funding levels are shown in Figure HIED-2.

University of California

The policy of the 1997-98 Budget is to continue strengthening the UC pursuant to the four-year compact initiated in 1995-96.

General Fund Increases. The Budget provides a General Fund increase of \$125.6 million, which includes \$78.4 million to meet the third-year funding commitment of the compact and \$37 million to avoid a ten percent increase in systemwide fees. UC plans to use most of these funds, supplemented with increases in fees

for students in professional schools and an increase in nonresident tuition, and funds redirected from productivity increases, for enrollment growth, employee compensation, and price increase.

In addition, the Budget provides \$5.8 million for the increased cost of lease-purchase payments resulting from revenue bonds; \$1.4 million for annuitant health and dental benefits, consistent with the cost for civil service annuitants; \$2 million for the California Supercomputer Center; \$5 million for the Industry-University Cooperative Research Program; and \$1 million for student outreach.

Student Enrollment. UC's enrollment has increased to 155,000 full-time equivalent (FTE) students in 1996-97, which is 3,500 FTE more than budgeted. For 1997-98, UC is allocating \$10.5 million to increase budgeted enrollments by 1,500 FTE. UC will continue to meet Master Plan enrollment goals and will admit all eligible students.

FIGURE HIED-1

Higher Education Full-Time Equivalent Students

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1997-98 vs. 1996-97
University of California	155,881	156,371	154,277	152,301	152,050	154,141	151,500 ^{2/}	153,000	1,500
Undergraduate	(116,546)	(117,297)	(115,133)	(113,548)	(113,869)	(116,176)	(113,400)	(114,600)	1,200
Graduate	(26,798)	(26,511)	(26,374)	(25,930)	(25,546)	(25,346)	(26,100)	(26,400)	300
Health Sciences	(12,537)	(12,563)	(12,770)	(12,823)	(12,635)	(12,619)	(12,000)	(12,000)	0
California State University ^{1/}	278,902	271,159	258,834	247,866	247,113	253,376	255,501 ^{2/}	258,000	2,499
Undergraduate	(239,521)	(232,822)	(221,838)	(213,632)	(213,390)	(218,529)	(220,635)	(222,793)	2,158
Graduate/Post-baccalaureate	(39,381)	(38,337)	(36,996)	(34,234)	(33,723)	(34,847)	(34,866)	(35,207)	341
Community Colleges	884,932	917,839	896,900	864,014	853,712	870,357	922,578	944,536	21,958
Hastings	1,325	1,261	1,253	1,268	1,257	1,216	1,308	1,200	-108
Total Students	1,321,040	1,346,630	1,311,264	1,265,449	1,254,132	1,279,090	1,330,887	1,356,736	25,849

^{1/} Includes California Maritime Academy, which became part of the CSU effective July 1, 1995.

^{2/} Budgeted. Estimated enrollment is 155,000 for UC and 260,000 for CSU.

Employee Compensation. UC's plan would provide a total of \$96.9 million for employee compensation increases. Of this amount, \$30.7 million is provided for an average two-percent salary cost-of-living increase for all employees, effective October 1, 1997. In addition, as part of its plan to restore faculty salaries to competitive levels by 1998-99, UC will provide \$16.9 million for another three-percent salary increase for faculty, effective October 1, 1997, bringing the total faculty salary increase to five percent. UC's plan also includes \$15.2 million to fund the full-year cost of the 1996-97 salary increases, which were effective October 1, 1996, and \$34.1 million for full funding of academic and staff merit salary increases.

Price Increase. UC plans to allocate \$11.8 million to offset the impact of inflation on its nonsalary budget.

Building Maintenance. UC's plan provides \$7.5 million in additional funding for ongoing building maintenance. This is the first step in a multi-year plan by UC to increase funding levels for building maintenance. Building maintenance is currently underfunded by about \$60 million annually, which has created a backlog of deferred maintenance projects that exceeds \$500 million. In the spring, UC will propose a plan to more adequately deal with the problem of deferred maintenance.

California Supercomputer Center. The Budget provides \$2 million in state matching funds for the California Supercomputer Center, which is located at the San Diego campus. The Center, established in 1985 as one of four national centers sponsored by the National Science Foundation (NSF), has received more than \$150 million from NSF. NSF is discontinuing the current

supercomputer program and will institute, instead, a new program which will be limited to two centers. San Diego, on behalf of a consortium that includes all the UC campuses, the three Department of Energy Laboratories, CalTech, Stanford University, the CSU and numerous businesses, has submitted a proposal to NSF to secure funding as one of the two national centers. The State recognizes the value of maintaining a Supercomputer Center and is continuing its financial support for this effort.

Industry-University Cooperative Research. In 1996-97, UC launched a competitive grants research proposal designed to help the State's economy by making targeted investments in areas of research that are of strategic economic importance. The 1997-98 Budget provides \$5 million to continue Industry-University partnerships. In combination with \$3 million in university resources,

FIGURE HIED-2

Higher Education Expenditures General Fund, Lottery Funds, State School Fund, Local Revenues and Student Fees (Dollars in Millions)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	One-Year Change Amount	Percent
University of California ^{1/}	\$2,615.5	\$2,685.6	\$2,599.7	\$2,551.6	\$2,668.6	\$2,769.2	\$2,963.9	\$3,099.5	\$135.6	4.6%
California State University ^{1/ 2/}	2,050.1	2,051.7	2,016.9	1,975.8	2,141.8	2,229.2	2,418.7	2,493.6	74.9 ^{4/}	3.1% ^{4/}
Community Colleges	3,307.9	3,352.7	3,461.4	3,539.4	3,639.1	3,984.2	4,211.8	4,449.6	237.8	5.6% ^{5/}
Student Aid Commission	160.7	172.1	145.9	210.7	226.1	236.8	264.8	295.1	30.3	11.4%
Other Higher Education ^{3/}	86.9	115.5	135.8	129.2	156.8	155.6	190.3	199.5	9.2	4.8%
Total Funds	\$8,221.1	\$8,377.5	\$8,360.4	\$8,408.1	\$8,832.4	\$9,375.0	\$10,049.5	\$10,537.3	\$487.8	4.9%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting, general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} Includes the California Maritime Academy which became part of CSU, effective July 1, 1995.

^{3/} The Other Higher Education amount includes General Obligation Bond Interest and Redemptions for UC, CSU, and Hastings College of the Law (HCL); and California Postsecondary Education Commission.

^{4/} CSU's expenditures for 1996-97 include \$45 million in General Fund for one-time expenditure of funds carried over from prior years. Without these one-time expenditures in 1996-97, CSU's expenditures for 1997-98 would show a one-year increase of \$119.9 million or 5.1 percent.

^{5/} CCC's expenditures for 1996-97 include \$34.8 million in General Fund proposed legislation for one-time expenditures. Without this proposal, CCC's expenditures for 1997-98 would show a one-year increase of \$272.5 million or 6.5 percent.

the program will leverage more than \$10 million in private industry support. This program complements the research and development tax credit by focusing on California's strongest industries and fields of research. The Budget will provide funding to expand research in biotechnology, which was funded in 1996-97, and will provide funding for research in an additional area such as information sciences, multimedia and entertainment, or material sciences.

Outreach. The Budget provides \$1 million to expand student academic outreach programs as a tool to assist the university in promoting student achievement, especially among groups with low UC eligibility rates. The overall goal is to develop and strengthen the academic skills and interests of students in K-12 and community colleges so that more young people are academically prepared to gain admission to the university. Of the \$1 million increase, UC intends to earmark \$250,000 for academic outreach programs in the Central Valley, a region of the state that has, for some time, had a lower overall college attendance rate and a lower than average rate of student eligibility for university admission.

Student Fees. For the third consecutive year, the Budget provides funds to avoid an increase in mandatory systemwide student fees. The undergraduate fee level of \$4,166 compares favorably to the 1996-97 average of \$4,913 at four public institutions used for salary comparison purposes (see Figure HIED-3).

Medical Services Merger. In November 1996, the UC Regents approved the merger of the UC San Francisco (UCSF) Medical Center's clinical services with those of Stanford University (Stanford). UCSF and Stanford initiated merger

discussions as a result of the growth in managed care and changes in federal support for academic health centers. A new corporation, known as UCSF Stanford Health Care, will oversee the joint operations of the two medical centers effective July 1997. This merger represents an innovative public-private partnership which will provide quality medical education and advanced medical care.

Capital Outlay. The Governor's Budget proposes \$171.7 million for UC from existing GO bonds for capital outlay expenditures. This amount includes funding for UC to address 31 projects at 9 campuses, placing priority on seismic, fire/life safety, and vital infrastructure projects. The Budget continues to provide UC with the flexibility to use project savings from GO bond-funded capital outlay projects for other high-priority items. In addition, the Administration is

proposing to provide UC with \$21.6 million in matching funds for earthquake damage to the UCLA Center for Health Sciences/Medical Center facility at the Los Angeles campus. This is in addition to the \$14 million previously allocated to the UC from Chapter 15, Statutes of 1994.

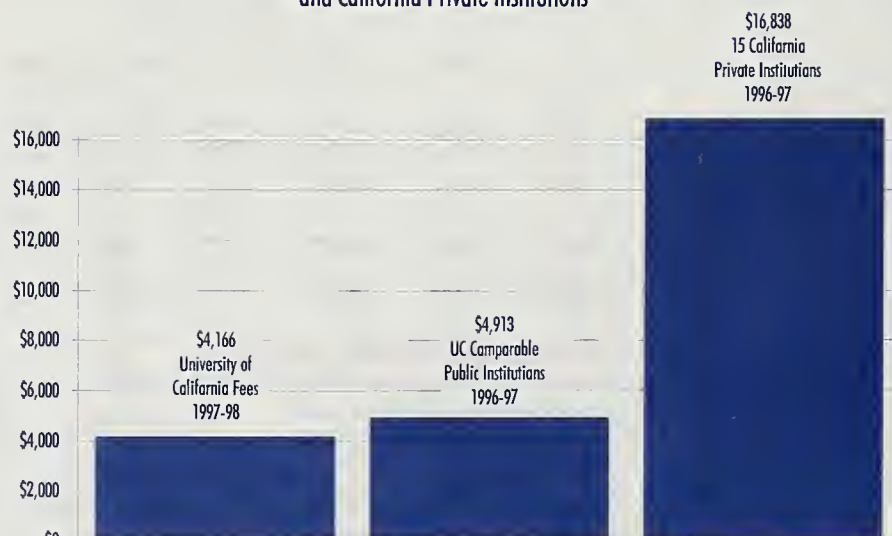
California State University

The policy of the 1997-98 Budget is to continue strengthening the CSU pursuant to the four-year compact initiated in 1995-96.

General Fund Increases. The Budget provides a General Fund increase of \$113.4 million, which includes \$68.7 million to meet the third-year funding commitment of the compact and \$30.4 million to avoid a ten percent increase in systemwide mandatory student fees.

FIGURE HIED-3

University of California Comparison of Resident Fee and Tuition Levels at Comparable Universities and California Private Institutions



CSU plans to allocate most of these funds to student enrollment, employee compensation, building maintenance, academic technology, price increase, and developing campuses, as discussed in more detail below.

The Governor's Budget additionally provides \$1.7 million (plus \$2.5 million in bond funds) to assist in the conversion of the former Stockton Developmental Center to the CSU, Stanislaus Regional Center for Education and Human Services; \$9.5 million for the increased cost of lease-purchase payments resulting from revenue bonds; and \$800,000 for the increased cost of annuitant dental benefits.

Student Enrollment. CSU's enrollment in 1996-97 is estimated at 260,000 FTE, which is 4,500 FTE more than budgeted, and represents an increase of 6,600 FTE over last year. For 1997-98, CSU is providing \$14.4 million to increase budgeted enrollments by 2,499 FTE.

Employee Compensation. CSU plans to allocate an additional \$57.8 million for employee compensation in 1997-98. Of this amount, \$2.8 million represent full-year costs of 1996-97 compensation increases effective September 1, 1996. The remaining funds represent a total increase of 3.4 percent; however, the specific allocations for cost-of-living, time-in-service, and performance increases will be determined by CSU and its employee unions through collective bargaining.

Building Maintenance. CSU plans to allocate \$8.5 million in order to raise the level budgeted for ongoing maintenance.

Academic Technology. CSU plans to allocate \$13.5 million to launch its Integrated Technology Strategy.

Funds will be used for computer hardware, software access, training, and user support.

Price Increase. CSU plans to allocate \$3.5 million for price increases to fund inflationary increases in nonsalary goods and services.

Developing Campuses. Tremendous progress has been achieved with the opening in fall 1995 of the new campus at Monterey Bay. This new campus will continue CSU's tradition of excellence, and will provide an enriched environment through the use of alternative instructional methods and new technologies. CSU plans to allocate a total of \$3.5 million to continue development at both the Monterey Bay and San Marcos campuses.

Student Fees. For the third consecutive year, the Budget provides funds to avoid an increase in mandatory systemwide student fees. CSU's fee level of \$1,935 compares very favorably with the 1996-97 average of \$3,295 at 15 public institutions used for salary comparisons (see Figure HIED-4).

Economic Improvement Initiative. Traditionally, CSU has viewed one of its contributions to the competitiveness of California's economy as the strengthening of K-12 education. With the recent adoption, by the CSU Board of Trustees, of a series of rigorous policy actions aimed at reducing remedial education at the post-secondary level, CSU is prepared to move quickly to implement the following initiatives that will further strengthen California's competitive position in the economy; the

FIGURE HIED-4

California State University
Comparison of Resident Fee and Tuition Levels
at Comparable Public Universities and
California Private Institutions



HIGHER EDUCATION

Budget proposes \$5 million for these new programs.

- ◆ Expand outreach efforts at charter schools to assist pupils who are traditionally not fully prepared to pursue a college education.
- ◆ Work directly with third-grade teachers on new instructional methods and techniques to assist students needing special assistance learning to read, and to develop curriculum that will emphasize reading skills.

Outreach. The Budget proposes \$1 million to expand CSU's systemwide academic outreach program, known as the Precollegiate Academic Development Program. This Program trains CSU students to assist middle and high school students in the subject areas of English and mathematics, with the goal of raising entering students' skill levels and preparing them for collegiate-level course work.

Reuse of Stockton Developmental Center. The Budget includes \$1.7 million to continue funding the operations and maintenance of the facility during a five-year start-up phase and \$2.5 million in bond funds for capital improvements. This additional support will foster the reuse of the former Stockton Developmental Center as the CSU, Stanislaus, Regional Center for Education and Human Services.

Reuse of Camarillo State Hospital and Developmental Center. The transformation of the Stockton State Hospital and Developmental Center into the CSU Stanislaus Regional Center for Education and Human Services serves as a potential model for the reuse of the Camarillo State Hospital and Developmental Center. The CSU Trustees are currently engaged in a due diligence review of the proposed Camarillo conversion that will more fully outline the fiscal impact of a new campus, and provide a detailed analysis of the state, local, and private resources that will be necessary for its operations, should that be the ultimate decision.

The Administration supports CSU's efforts to pursue a partnership with local and regional governments and businesses to develop the potential reuse of the Camarillo site.

Capital Outlay. The Budget also proposes \$150 million in capital expenditures for CSU. These funds will address 34 projects on 22 campuses with priority on seismic, fire/life safety, and vital infrastructure projects. This is in addition to the \$32 million previously allocated to the CSU from Chapter 15, Statutes of 1994, in matching funds for earthquake damage to the Northridge campus. The Budget continues to provide CSU with the flexibility to use project savings from GO bond-funded capital outlay projects for other high-priority items.

California Community Colleges

Total funding for 1997-98 is \$237.8 million more than the amount provided in 1996-97, which represents a 5.6 percent increase. Included in the expenditures proposed for 1996-97 is an additional \$34.8 million of one-time spending. Therefore, the increase in funding for ongoing programs is \$272.5 million, or 6.5 percent more than in 1996-97.

These increases provide the resources for districts to address the Administration's policy objectives for the CCC which include: improving student outcomes; assisting in the transition from welfare dependency to self-sufficiency; protecting the State's facilities investment; investing in high technology to improve instructional quality and student services; encouraging distance learning and new teaching methods; and expanding college access for all to ensure a well-trained, competent work force capable of competing in the job market of the next century.

FIGURE HIED-5

Resident Tuition and Required Fees
Community Colleges
(Average Annual Fees)
1996-97



The Budget also ensures California's community colleges continue to be the most affordable higher education system in the nation, regardless of income level. Student fees remain at \$13 per unit which is the lowest in the nation. Figure HIED-5 compares California's annual enrollment fees nationwide for 1995-96. The data in the chart reflect that the national average for student fees at community colleges is more than three times the fees paid in California; fees charged in South Carolina, the state with the second lowest fees, are almost 50 percent greater than fees charged in California. Additionally, because the number of financially needy students has increased, the Budget includes funds to offset the associated fees waived for those students.

As Figure HIED-6 shows, total funding for the CCC in 1997-98 is \$4.4 billion. Figure HIED-7 shows the funding sources and their proportionate contribution to the colleges from 1995-96 through 1997-98.

The following adjustments will be proposed through legislation in 1996-97 from additional Proposition 98 funds available to meet the revised levels of the respective guarantees:

- ◆ \$6 million for child care facilities. These funds will finance the initial acquisition, to be repaid by the campus-based providers; the repayment will be deposited into a fund to finance future campus expansions and improvements of child care facilities.
- ◆ \$53.4 million for one-time FTES—based block grants for high-priority instructional equipment, technology infrastructure, library material replacement, and scheduled maintenance and special repairs.

The following ongoing adjustments are proposed for the general apportionment and other programs for 1997-98:

- ◆ \$84.9 million to fund a full statutory COLA of 2.79 percent for general apportionments and categorical for the third consecutive year.
- ◆ \$70.9 million for growth in enrollments, which is almost double the expected 1.21 percent change in adult population for both general apportionments and categorical programs. This increase will provide for an additional 22,000 FTES over 1996-97, bringing the estimated FTES level to over 944,500—the highest level of enrollment.
- ◆ \$53.2 million to fund a welfare reform-work education program. This program expands and packages current programs and services that allow welfare recipients to receive education and coordinated work experiences to move from welfare to independence. At least 20,000 community college welfare

recipients will be engaged in qualifying work activities that meet federal work participation requirements. A \$32.5 million work-study component allows employers, who hire up to 5,000 qualifying community college Temporary Assistance for Needy Families (TANF) recipients, to claim up to 75 percent of the cost of the TANF recipient's wage. A \$5.2 million component provides professional staff at all colleges to develop unpaid, educational-related work opportunities for the remaining 5,000 TANF recipients. In addition, the program includes \$10.2 million in funds for additional subsidized campus or other child care services to serve at least 2,000 children of welfare recipients while their parents are attending classes or engaged in compatible work activities. The program also provides \$5.3 million in funds for professional staff at the community colleges to serve as a direct liaison with county welfare offices for referral and follow-up.

- ◆ \$9.9 million to fund a competitive grant program to allow community colleges to take advantage of

FIGURE HIED-6

Significant Revenue Sources for Community Colleges

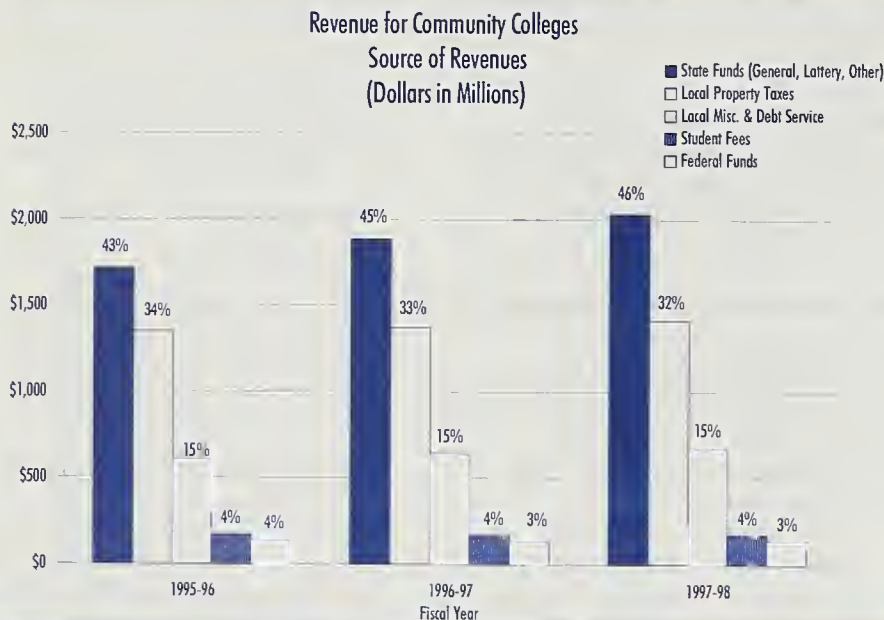
(Dollars in Millions)

Source of Funds	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96 ¹¹	1996-97 ¹²	1997-98	Change from 1996-97	
									Dollars	Percent
State General Fund	\$1,792.7	\$1,801.1	\$1,641.6	\$1,279.2	\$1,342.7	\$1,600.3	\$1,783.0	\$1,932.1	\$149.0	8.4%
Lottery Fund	97.1	75.8	85.5	94.2	100.7	107.4	91.8	91.8	0.0	0.0%
Local Property Taxes	791.1	831.3	1,010.3	1,278.5	1,332.0	1,348.1	1,369.2	1,415.8	46.6	3.4%
Student Fees	72.0	82.3	122.6	186.9	174.9	166.9	171.3	175.4	4.1	2.4%
Other State Funds	6.5	5.2	6.5	5.5	7.3	7.3	7.3	7.8	0.5	6.8%
Federal Funds	126.4	120.0	118.5	136.3	146.1	143.7	143.7	143.7	0.0	0.0%
Local Miscellaneous	415.5	433.6	472.2	555.9	533.8	606.9	641.9	679.5	37.6	5.9%
Local Debt Service	6.7	5.0	4.2	2.8	1.7	3.6	3.6	3.6	0.0	0.0%
Total Revenue	\$3,307.9	\$3,354.3	\$3,461.4	\$3,539.4	\$3,639.1	\$3,984.2	\$4,211.8	\$4,449.6	\$237.8	5.6%

¹¹ 1995-96 General Fund includes proposed \$24.7 million from 1996-97 legislation.

¹² Estimated. 1996-97 General Fund includes proposed \$34.8 million from 1996-97 legislation.

FIGURE HIED-7



successful model programs to improve student outcomes. Successful grants would focus on an analysis of student outcomes to determine the need for, and use of, successful models developed and in use around the state or nation. Districts would provide increasing amounts of matching funds for the new programs over a three-year period to gradually institutionalize the successful models.

- ◆ \$4.7 million to augment the telecommunications and technology infrastructure program. The proposal builds on the initial college and district office connections established with the CSU network, and seeks to automate library card catalogs and expand the systemwide network between and among the individual colleges and district offices.

- ◆ \$4.1 million for increased financial aid, plus an additional

\$372,000 for financial aid-related administration at local colleges.

- ◆ \$21.4 million for increased lease-revenue bond payments necessary for Public Works Board-financed capital improvements.

The following ongoing adjustments are proposed for the Chancellor's Office of the CCC for 1997-98:

- ◆ \$175,000 to develop grants and industry partnerships to acquire new resources for the community colleges.
- ◆ \$125,000 to conduct a review of all codes and regulations to refocus the Chancellor's functions on student outcomes.

Capital Outlay. The Governor's Budget proposes \$153.2 million for capital projects. This funding level allows this segment to address 93 projects at 62 campuses. This increase compensates for slightly less funding in 1996-97 which

resulted from the large number of projects which were in preconstruction phases. Projects include program expansion, facilities for child development curriculum, correction of fire/life safety deficiencies, and equipment to complete previously funded projects. This funding is in addition to the \$6.7 million previously allocated from Chapter 15, Statutes of 1994, which provided matching funds for damage to Southern California campuses resulting from the Northridge earthquake.

Student Financial Aid

California's Master Plan for Higher Education is based on three principles: 1) high-quality educational programs, 2) open access for all who meet specified entrance criteria, and 3) affordability. Until the severe fiscal constraints of the early 1990s, the State had sufficient resources to pursue the goal of affordability through a policy of charging all students fees which were substantially lower than comparable institutions.

In the early 1990s, California's fiscal constraints forced the State to make the difficult decision to raise student fees, which at that time, was necessary to avoid compromising the quality of the State's higher education institutions. During this period, the State continued investing resources in financial aid to ensure that California's higher education system would remain accessible to all eligible students. In recent years, under improved fiscal conditions, the State has been able to renew its commitment to affordable education and avoid fee increases by "buying-out" proposed increases for three consecutive years.

The Administration has maintained and renewed its commitment to

FIGURE HIED-8

**Financial Aid Grants:
General Fund and Fee Revenue Funded**
(Dollars in Thousands)

Institution/Fund Source	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^{1/}
University of California	\$80,335	\$105,297	\$124,036	\$168,735	\$175,655	\$187,457	\$182,461	\$184,881
General Fund	47,253	56,460	53,834	65,423	53,743	62,644	54,165	54,165
Fee Revenue ^{2/}	33,082	48,837	70,202	103,312	121,912	124,813	128,296	130,716
California State University	32,117	46,493	84,989	94,591	109,042	110,047	112,500	114,067
General Fund	32,117	46,493	47,896	48,227	47,680	47,659	47,048	47,048
Fee Revenue	—	—	37,093	46,364	61,362	62,388	65,452	67,019
Community Colleges ^{2/}								
General Fund	12,021	16,849	28,291	51,540	74,799	93,307	97,935	102,071
Student Aid Commission								
General Fund	157,032	168,975	142,831	207,600	222,878	230,523	258,544	283,208
Total	\$281,505	\$337,614	\$380,147	\$572,466	\$582,374	\$621,334	\$651,440	\$684,227
General Fund	248,423	288,777	272,852	372,790	399,100	434,133	457,692	486,492
Fee Revenues	33,082	48,837	107,295	149,676	183,274	187,201	193,748	197,735

^{1/} Reflects no increases in mandatory systemwide fees for the University of California and California State University.

^{2/} Reflects budgeted amounts.

phasing in the 1996-97 increases in both the number of Cal Grant awards and the maximum award level for students attending private institutions.

It should be emphasized that students also receive financial aid from federal, private, and other sources in the form of grants, work study, and loans. Altogether, students in California's public and private higher education institutions received about \$4.4 billion in financial aid in 1995-96, an increase of \$2 billion (87 percent) in just the five years since 1990-91. The total amount is expected to increase by several hundred million dollars in 1996-97 and again in 1997-98.

keep higher education affordable by providing significant increases in student financial aid (see Figure HIED-8). Since 1990-91, the funding of financial aid from new fee revenue has increased by \$164.6 million, and by \$238.1 million from the General Fund; the combined total has more than doubled, increasing from \$281.5 million to \$684.2 million. Currently, about 66 percent of UC students and 47 percent of CSU students receive financial aid.

Cal Grant Program. The Cal Grant A and B Programs are proposed to increase by \$10 million in order to raise the maximum award amount for new grant recipients selecting private institutions. This funding will increase the maximum award amount for new recipients from the current \$7,164 to approximately \$9,105, an increase of \$1,941. With this increase, the award level for students attending independent institutions will be very close (97 percent) to the statutory

goal for the first time; for students attending public institutions, the statutory goal has been substantially met since 1989-90. The new awards will cover about 56 percent of the average tuition for Cal Grant recipients attending independent institutions. Students receiving this higher award level will continue to receive the higher award level in future years.

Also, the Cal Grant Program is proposed to be increased by \$1.2 million for 500 new grants to students enrolled in or intending to enroll in programs leading to employment in digital animation. The amount provided includes \$1 million for grants to students, which will be matched dollar-for-dollar by the digital animation industry, and \$200,000 for state administrative costs.

In addition, the Budget includes an increase in the Cal Grant Program of \$15.8 million. This increase reflects the continued costs of

HEALTH AND WELFARE

Health and Welfare programs provide medical, mental health and social services to California's neediest population. The 1997-98 Governor's Budget emphasizes prevention efforts, personal responsibility, and a major redesign of welfare programs consistent with recently enacted federal welfare reform.

1997-98 HEALTH AND WELFARE EXPENDITURE LEVELS

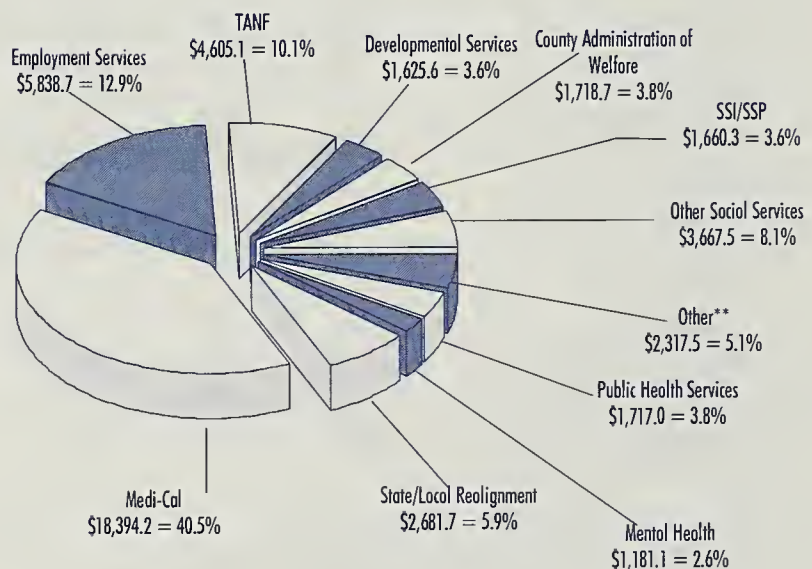
For 1997-98, Health and Welfare expenditures total \$45.4 billion in combined state and federal funds, and include approximately 38,200 personnel years.

The Budget assumes prior year grant reductions will be made permanent, automatic cost-of-living increases will be eliminated, and welfare reform will be implemented on January 1, 1998.

Figure HW-1 displays the allocation of funding to the major program areas, and Figure HW-2 displays the distribution of program caseloads.

FIGURE HW-1

Health and Welfare Proposed 1997-98 Expenditures* All Funds (Dollars in Millions)



* Includes support and local assistance.

** Reflects allocations for the Health and Welfare Agency, Departments of Aging, Alcohol and Drug Programs, Health and Welfare Data Center, Office of Statewide Health Planning and Development, Rehabilitation, State Independent Living Council, Emergency Medical Services Authority, Governor's Advisory Committee on Child Care, Community Services and Development, State Council and Area Boards on Developmental Disabilities, California Medical Assistance Commission, State support for the Departments of Health Services and Social Services. Also included are the costs associated with Health and Welfare mandates and debt service.

HEALTH AND WELFARE

DEPARTMENT OF SOCIAL SERVICES

Temporary Assistance to Needy Families (TANF)

Formerly Aid to Families With Dependent Children (AFDC)

On August 22, 1996, the Federal Personal Responsibility and Work

Opportunity Reconciliation Act (PRWORA) was signed into law. The PRWORA, or welfare reform, ended the Aid to Families with Dependent Children (AFDC) Program, provided block grants for specified welfare programs to states, and gave states broad authority to implement new programs to meet individual states' needs.

Assistance Programs for Children and Families

Cash assistance for children and families, formally the AFDC Program, is California's largest assistance program, providing cash assistance to help families meet basic needs (shelter, food, clothing) when they are unable to meet those needs on their own. Eligible families must include a child under age 18 who does not have parental care and support due to the absence, death, incapacity or unemployment of one or both parents. In addition, families must meet income and asset eligibility requirements. Under current state law for the AFDC Program, there are two categories of assistance: the Family Group, which consists mainly of single parents with dependent children; and a second category, the Unemployed Parent Program, which consists of two-parent households with at least one unemployed parent.

Caseload Trends. Caseload and corresponding expenditures are now projected to decrease for the third consecutive year in 1997-98, a significant turnaround from the rapid growth in the early 1990s (see Figure HW-3). Several factors contribute to this reduction: policy reforms which promote job skills and encourage education; increased child care services; dramatically increased financial incentives encouraging recipients to work; and, improved private sector economic performance. These changes have assisted recipients and potential recipients in finding work. Additionally, the *Edwards v. Carlson* court decision resulted in the combining of separate Assistance Units for non-sibling relatives living with a relative caretaker, such as cousins living with a grandparent, into a single case. This change did not reduce the number of persons aided

FIGURE HW-2

Major Health and Welfare Program Caseloads

	1996-97 Revised	1997-98	Change
1 California Children's Services ^{a/} (treatment of physical handicaps)	126,000	129,000	3,000
2 Medi-Cal Certified Eligible (provision of medical services to low income eligibles)	5,524,000	5,600,000	76,000
3 TANF (assistance for deprived families with minor children) ^{b/}	2,625,000	2,591,000	-34,000
4 Foster Care	78,000	82,000	4,000
5 Child Welfare Services ^{c/}	162,000	168,000	6,000
6 SSI/SSP (support for aged, blind and disabled) ^{d/}	1,035,450	943,750	-91,700
7 In-Home Supportive Services ^{e/}	191,770	187,700	-4,070
8 Non Assistance Food Stamps ^{f/}	434,000	424,000	-10,000
9 State Hospitals			
a. Mental Health Clients ^{e/}	4,194	4,138	-56
b. Developmentally Disabled Clients ^{g/}	3,857	3,362	-495
10 Community Developmentally Disabled Services			
a. Regional Centers ^{e/}	135,000	142,000	7,000
b. Work Activity Program ^{h/}	20,000	20,000	0
11 Vocational Rehabilitation ^{i/}	29,000	32,000	3,000
12 Alcohol and Drug Programs ^{h/}	347,700	347,700	0
13 Employment Services (placements)	206,500	206,500	0
14 Unemployment Services (total weeks claimed)	22,866,000	22,221,000	-645,000

a/ This figure represents unduplicated quarterly caseload in the CCS Program.

b/ This figure represents the number of persons served in TANF and includes the impact of federal welfare reform and prior State policy reforms in welfare programs.

c/ This figure represents an average monthly unduplicated caseload as reported in the client data system and includes the impact of federal welfare reform on caseload.

d/ Reflects the federal welfare reform provisions eliminating eligibility for most noncitizens and adapting new eligibility restrictions for children with disabilities.

e/ Represents the average annual caseload.

f/ Represents the year-end population upon which the Budget is based.

g/ Represents the number of new plans written each year.

h/ Number of participants served during the fiscal year.

by the program, but reduced the number of individual cases and generated savings because adding a person to an existing case costs less than an additional case.

Family Group (FG). The FG component of the caseload comprises approximately 82 percent of the total caseload. In May 1996, the 1996-97 FG caseload was projected to increase slightly over the prior year. Now, as a result of an improving economy and policy reforms, the FG caseload is projected to decrease by two percent. Caseload is projected to decline again in 1997-98 by 1.2 percent.

Unemployed Parent (U). The U component comprises approximately 18 percent of the total caseload. In general, the size of the U caseload is determined by the health of the State's economy. The number of two-parent families receiving aid tends to grow sharply during recessionary times and decline with

economic recovery. In May 1996, the 1996-97 U caseload was projected to decrease by 1.3 percent over the prior year. Revised estimates now project caseload will decrease by 2.5 percent below the prior year.

Program Changes

Prior State Policy Changes. The enactment of federal welfare reform allows the State to implement previously authorized policy reforms in 1996-97, including:

◆ **Grant Reductions.** The 1996 Budget Act included the October 1, 1996, implementation of regional grants, which divide the State into two regions: Region 1 includes counties with larger populations and a higher cost of living, and Region 2 includes counties with smaller populations in which average monthly rent costs are below \$400. Due to the timing of

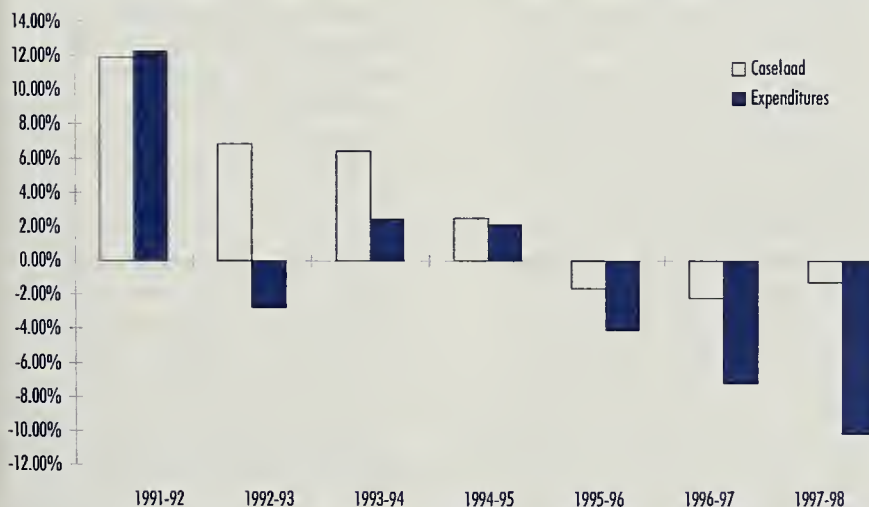
federal welfare reform and recipient notice requirements, implementation of regional grants became effective January 1, 1997. In addition, a 4.9-percent statewide grant reduction which was assumed in the 1996 Budget Act to take effect on October 1, 1996, also became effective on January 1, 1997, and is proposed to be authorized permanently in statute. As a result of these changes, the cash grant level for a family of three in Region 1 will be \$565 per month and the Region 2 cash grant level will be \$538 per month. These two grant reductions result in General Fund savings of \$82.9 million in 1996-97 and \$165.9 million in 1997-98.

◆ **Maximum Family Grant.** The maximum family grant caps grant levels by not allowing grant increases to families when children are conceived while the parent(s) is receiving cash assistance. In order to receive increased aid for additional children, a family must be off aid at least 24 months before reapplying. Grant savings will begin in 1997-98 with anticipated General Fund savings of \$20.1 million.

◆ **Family Relocation Grant.** Under federal welfare reform, states may limit the amount of cash aid provided to welfare recipients moving into California from other states which provide lower grants. The limitation provides new state residents cash aid only up to the amount the family would have received in their previous state of residence. While state statute authorized this restriction on cash assistance to new state residents, federal law or a federal waiver was required for implementation. The relocation grant provisions became effective January 1, 1997, and result in General Fund

FIGURE HW-3

Annual Percentage Change in AFDC Caseload and Corresponding Local Assistance Expenditures



savings of \$900,000 in 1996-97 and \$10.9 million in 1997-98.

◆ **Teen Pregnancy Disincentive.**

This proposal is consistent with federal welfare reform requirements and continues to be an integral part of the State's welfare redesign proposal. Under this requirement, unwed teen parents must live at home as a condition of eligibility for cash assistance, unless Child Protective Services determines that the parents' home is abusive. The program provides appropriate adult supervision of the teenage parent and child and discourages teens from becoming pregnant as a means of gaining independence by removing financial incentives. The program, as currently authorized, does not need to be amended as a result of federal welfare reform or the state welfare redesign proposal. The disincentive is expected to result in General Fund costs of \$1.6 million in 1996-97 and \$9.6 million in 1997-98.

◆ **Impact of the Minimum Wage Increase.** Federal and state law changes increase the minimum wage over two years to \$5.75 per hour on March 1, 1998. These increases will result in working welfare recipients having reduced grants and becoming ineligible for cash assistance sooner than would otherwise have occurred. This creates General Fund savings for cash grants of \$1.3 million in 1996-97 and \$5.5 million in 1997-98.

◆ **Transitional Child Care (TCC).** In order to create additional incentives for recipients to move from welfare to work, the 1996 Budget Act included resources to increase the time a family can receive TCC from one to two years. The General Fund costs of providing

TCC for two years is \$8.8 million in 1996-97 and \$17 million in 1997-98.

◆ **New State Policy Proposals.** The enactment of federal welfare reform allows redesign of California's welfare system. The Budget assumes enactment of legislation, effective January 1, 1998, to abolish the State AFDC Program and establish a new work-based, nonentitlement program to implement the Federal Temporary Assistance to Needy Families (TANF) program. The State will continue to set grant levels, and establish basic eligibility criteria and time limits. The significant new policy changes which will be incorporated into the new Program include the following:

◆ **Eligibility Time Limits.** Current state law provides for an open ended entitlement to public welfare benefits. Federal welfare reform established a maximum federal eligibility lifetime limit of five years. The proposed welfare redesign will include stricter time limits to ensure that welfare remains available over a period of time which will allow individuals to leave aid and have time remaining within the federal lifetime limits. Those already receiving aid on January 1, 1998, will be eligible for cash assistance for a maximum of 24 months during a 36-month period. Those entering welfare on or after January 1, 1998, will be eligible for cash assistance for up to 12 months over a 24-month period. In addition, when an individual has received a grant for six consecutive months, there will be a one-time 15-percent transitional grant reduction.

◆ **Eligibility for Immigrants.** Federal welfare reform restricts eligibility for legal immigrants. However, state law provides for cash assistance to immigrants who

would be excluded under the federal welfare reform provisions. The welfare redesign proposal continues welfare eligibility for legal immigrants who were on aid as of August 22, 1996, and allows those legal immigrants who were in the country on August 22, 1996, but who were not receiving cash assistance, to remain eligible for welfare benefits. Legislation will be introduced to conform state statutes with federal law, effective July 1, 1997, to preclude legal immigrants entering the country after August 22, 1996, other than those excepted under federal law, from being eligible for aid for five years.

◆ **Children's Safety Net.** In order to ensure that children's needs are met if the parent(s) becomes ineligible for welfare benefits as a result of time limits or inability to meet work requirements, the welfare redesign proposal includes a children's safety net. When a family is no longer eligible, non-cash benefits will be provided for the children for basic needs normally covered through a cash grant.

◆ **Work Requirements.** Current state law requires welfare recipients to register for the Greater Avenues to Independence (GAIN) Program. Federal law requires work as a condition of eligibility after two years on aid. In addition, federal welfare reform requires states to meet statewide work requirements that include 25-percent of the Family Group (FG) caseload working 20 hours per week during the first year of federal welfare reform, increasing to 50 percent of the FG caseload working 30 hours per week by federal fiscal year 2002. Seventy-five percent of the Unemployed (U) caseload must work 35 hours

per week in the first year, increasing to 90 percent of the caseload working 35 hours per week by federal fiscal year 2002. Federal welfare reform also allows up to 20 percent of the caseload to be exempted from work requirements.

California's welfare redesign program includes work as an eligibility requirement from the date aid is granted and requires able-bodied single adults to work 32 hours per week and at least one of an able-bodied couple to work 35 hours per week. The redesign proposal exempts from these work requirements those who are disabled (SSI/SSP eligibility criteria), those who have a child who is disabled and is SSI/SSP eligible, adult citizens receiving assistance as a "non-needy caretaker relative" where only the child is aided, and new mothers with an infant under the age of 12 weeks.

◆ **Fraud.** Under welfare redesign, the State will continue to actively pursue a reduction in welfare fraud. Continuing fraud activities include: development and implementation of the Statewide Fingerprint Imaging System, which will alleviate multiple case fraud within and between counties; the United States residency verification program which operates at border crossings to help ensure that those who are not California residents are not made eligible for welfare benefits; and, an increase in Administrative Law Judges to conduct Intentional Program Violation hearings. The Budget also includes savings resulting from a one strike and you are off approach to those committing welfare fraud which will result in permanent ineligibility for welfare benefits.

◆ **Emergency Assistance, County Probation.** Effective January 1, 1996, federal emergency assistance (EA) funding for juvenile probation out-of-home placements was eliminated. Prior to January 1996, nearly \$140 million in federal funds had been budgeted for these probation placements. These federal funds were provided in federal fiscal year 1995 and included in the calculation of the federal welfare block grant. Because the federal probation placement funding increased the value of California's block grant and the State having a continuing need to fund placement options for juvenile offenders at the local level, the Budget includes \$140.9 million to continue funding for county probation placements.

◆ **Child Care Funding.** Prior to welfare reform, federal child care funding was available under Title IV-A and the Child Care and Development Block Grant (CCDBG). These funding sources were administered by the Department of Social Services (DSS) and the California Department of Education (CDE), respectively. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 amended CCDBG to incorporate funding for all federal child care programs as of October 1, 1996. The expanded CCDBG will be administered by CDE. Existing child care programs will continue to be funded. New programs and expansion of existing programs will be achieved through the allocation of the new federal funds included in the CCDBG.

For further discussion, see the chapter titled K-12 Education.

◆ **Paternity Establishment.** Current state law requires the establishment of paternity for children

receiving welfare benefits and requires applicants to cooperate with the county welfare office and district attorney in establishing paternity. A mother must cooperate in establishing paternity unless the county welfare department determines good cause exists for the mother not to do so. However, children continue to receive benefits regardless of the mother's cooperation. Federal welfare reform continues to require the establishment of paternity, but requires the district attorney, rather than the county welfare department, to determine whether a mother is cooperating. For noncooperation, both the mother and child can be denied aid, but the grant must be reduced by at least 25 percent. Consistent with federal law, California's proposal transfers responsibility for determining cooperation to district attorneys, provides aid to the mother when paternity is established, and at state option, denies benefits to the entire family for non-cooperation. A legitimate reason for non-cooperation in establishing paternity is to protect the location of mothers and children escaping domestic violence.

◆ **Eliminate Income Disregards.** Currently, welfare recipients are afforded various offsets to earned income in the calculation of individual grant levels, such as not counting as income the first \$30 earned plus one-third of the remaining income, discounting income up to \$175 per month for child care (\$200 per month for infant care), and allowing the recipient to keep up to the first \$50 of any child support payments collected by the district attorney. Under the proposed welfare redesign, these income disregards would be eliminated and recipients would be able to have

earned income of up to \$540 per month before any dollar-for-dollar grant reductions occur.

For further discussion of the welfare redesign proposal, see the chapter titled Reforming California's Welfare System.

Supplemental Security Income/ State Supplemental Payment (SSI/SSP)

The SSI/SSP Program is a means-tested program providing monthly cash assistance to eligible aged, blind and disabled persons who meet the program's income and resource requirements. The federal government sets basic eligibility criteria, including new citizenship requirements which were included in federal welfare reform legislation enacted on August 22, 1996. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients. In California, the federal SSI payment is augmented with a state supplemental payment. The combined SSI/SSP grant provides assistance for basic needs and living expenses.

Caseload Trends. In 1996-97, the SSI/SSP caseload is expected to increase to 1,035,450 cases, less than one percent above the actual number of cases in 1995-96. The SSI/SSP caseload for 1997-98 is projected to be 943,750 recipients, which is 8.6 percent below the revised 1996-97 caseload. This decrease reflects federal welfare reform provisions eliminating eligibility for most noncitizens and new eligibility restrictions for children with disabilities. Figure HW-4 compares the annual percentage change in California's SSI/SSP caseload and California's population. Two-thirds of the SSI/SSP caseload consists of

disabled persons, 31 percent are aged, and 2 percent are blind.

1996-97 Program. The 1996 Budget Act included a 4.9-percent SSI/SSP grant reduction effective November 1, 1996, assuming the federal maintenance of effort (MOE) level would be eliminated. However, because federal MOE relief was not enacted, the SSI/SSP payment standards were not reduced. Additionally, the payment standards were increased by a 2.9-percent federal cost-of-living adjustment (COLA) for the SSI portion of the grants, effective January 1, 1997.

1997-98 Program. The Budget proposes \$1.7 billion General Fund for SSI/SSP grant payments in 1997-98. This level assumes implementation of grant reductions initially approved in the 1995 Budget Act will occur in 1997-98 based upon passage of federal legislation to eliminate the MOE. State legislation will be introduced to permanently authorize the

statewide grant reduction. Consequently, the Budget assumes implementation of a 4.9 percent statewide grant reduction and a regional grant reduction of 4.9 percent for recipients living in counties having a lower cost of living. SSI/SSP recipients receiving NonMedical Out-of-Home Care and Title XIX medical facility living arrangements continue to be exempt from grant reductions. As reflected in Figure HW-5, California's SSI/SSP payment standards are the highest among the ten most populous states. After the reductions, California's payment standards will continue to be the third highest among all 50 states, following Alaska and Connecticut.

In January 1998, a 3.4-percent federal COLA will be added to SSI/SSP payment standards. The impact of the various changes to the SSI/SSP payment standards since January 1, 1996, is reflected in Figure HW-6.

FIGURE HW-4

**Annual Percentage Change in
SSI/SSP Caseload and California Population
1990-91 through 1997-98**

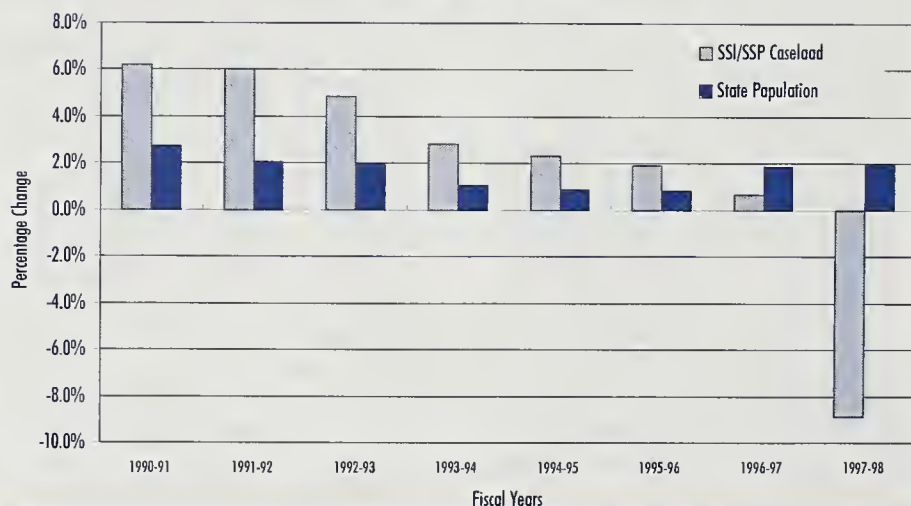


FIGURE HW-5

Comparison of Payment Standards for the
Ten Most Populous StatesSSI/SSP Payment Standards⁵
Independent Living Arrangement

States ^{1/}	Aged and Disabled		Blind	
	Individuals	Couples	Individuals	Couples
California	\$626	\$1,101	\$681	\$1,248
Texas ^{4/}	470	705	470	705
New York	556	808	556	808
Florida ^{2/}	470	705	470	705
Pennsylvania	497	749	497	749
Illinois ^{2/3/}	470	705	470	705
Ohio ^{2/3/}	470	705	470	705
Michigan	484	733	484	733
New Jersey	501	730	501	730
Georgia ^{2/4/}	470	705	470	705

^{1/} In descending order by state population.^{2/} These states do not supplement SSI for an independent living arrangement but provide other supplements.^{3/} These states do not have a standard SSP allowance. Payments are based upon individual needs and circumstances.^{4/} State does not provide optional supplementation.^{5/} Payment Standards as of January 1, 1996.

FIGURE HW-6

California SSI/SSP Payment Standards

Independent Living Arrangement
Aged and Disabled

Program Change and Implementation Date	Individuals		Couples	
	High-Cost Region	Low-Cost Region	High-Cost Region	Low-Cost Region
Grant Levels as of December 1, 1996	\$626	--	\$1,101	--
Federal 2.9% COLA January 1, 1997	640	--	1,122	--
4.9% Statewide Reduction October 1, 1997	610	--	1,087	--
4.9% Regionalization October 1, 1997	610	\$582	1,087	\$1,035
Federal 3.4% COLA January 1, 1998	626	598	1,111	1,059

Welfare Reform. The Budget reflects recently enacted federal welfare reform policy changes in the SSI/SSP Program. The major changes include eliminating eligibility for non-citizens until they become naturalized citizens, with specified exceptions, and eliminating eligibility for some disabled children. Accordingly, 1997-98 Budget includes savings of \$153 million from the elimination of eligibility to noncitizens. The savings amount is based on the assumption that 66 percent of non-citizens who otherwise would be discontinued from SSI/SSP will become naturalized citizens and remain eligible for program benefits. Because the federal government determines eligibility for SSI/SSP, no changes in state law are required. Additionally, the Budget assumes savings of \$9 million as a result of the changes in the definition of disability to exclude those children with maladaptive behavior.

Federal Medical Assistance Percentage (FMAP). FMAP is the federal share of Foster Care, In-Home Supportive Services (IHSS) and Child Support. Effective October 1, 1997, the FMAP rate will increase from 50.23 percent to 51.23 percent resulting in General Fund savings of \$2.5 million in the Foster Care Program and \$3.1 million in IHSS, and a General Fund cost of \$4.5 million in Child Support as this reimburses the federal government for their share of collections which offset grants. The net FMAP savings, therefore, are \$1.1 million.

In-Home Supportive Services (IHSS)

Eligibility Link to SSI. Federal welfare reform legislation eliminated eligibility for specified noncitizens for the SSI Program. Under current state law, eligibility for IHSS is

linked to federal SSI eligibility. Because of this linkage, there will be General Fund savings of \$112,000 in 1996-97 and \$24 million in 1997-98. It is expected that the majority of these noncitizens who would be discontinued from SSI/SSP will apply for citizenship and reapply for benefits under the SSI/SSP Program.

Minimum Wage Increases. Recently enacted state and federal law changes increased the hourly minimum wage from \$4.25 to \$4.75 per hour on October 1, 1996, and to \$5.00 per hour on March 1, 1997. The minimum wage will increase again in 1997-98 to \$5.25 on September 1, 1997, and to \$5.75 on March 1, 1998. The Budget includes an increase of \$37 million General Fund in 1996-97 and \$90.3 million General Fund in 1997-98 to cover the increased costs of in-home care providers resulting from these minimum wage increases.

Infant Health and Protection Initiative

The Infant Health and Protection Initiative is designed to protect children from abuse by substance-abusing parents. Early detection and intervention services will focus on newborns with mothers who demonstrate signs of substance abuse. Treatment services will be provided to the parents of these at-risk infants, and home visitation services will be provided when an infant remains with the parents. The Initiative will enhance child safety through the provision of enhanced social worker training and through the standardization of risk assessment tools and protocols across the State.

The Budget proposes \$35 million for the Infant Health Protection Initiative. This includes \$23.5 million (\$17.2 million General Fund) for the

Department of Social Services (DSS) to implement the five-county pilot program, revise risk assessment tools and serve infants and families referred to the Child Welfare Services System. The Budget also proposes \$11.5 million (\$5 million General Fund) for substance abuse treatment services for pregnant and postpartum women referred for treatment in non-pilot counties.

For further discussion, see the chapter titled Prevention Agenda Expansion.

Automation Projects

The Health and Welfare Agency Data Center (HWDC) manages four major automation projects for the Department of Social Services. These systems will assist in the administration of Temporary Assistance to Needy Families (TANF), Child Welfare Services (CWS) and child support programs, and will further the Administration's goals of providing quality services as efficiently as possible while reducing long-term costs.

Statewide Automated Welfare System (SAWS). SAWS will automate welfare eligibility processes and administrative functions for the TANF, Food Stamp, Medi-Cal, Foster Care, Refugee and County Medical Services Programs through the development of four separate consortia systems and is funded from the TANF Block Grant. The Governor's Budget proposes \$20.3 million (\$10.2 million General Fund) to complete implementation of Interim SAWS (ISAWS) in 20 additional rural counties. It is necessary to complete automation of the existing system in order to ease counties' transition to the new welfare programs. The Governor's Budget also proposes \$18 million (\$9.1 million General

Fund) to begin development of a Welfare Case Data System (WCDS) and \$20.2 million (\$6.2 million General Fund) for continued development of the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) System. The Governor's Budget additionally includes \$18 million (\$9.1 General Fund) for Consortium IV planning for system development, planning for a LEADER Foster Care component, and to develop and implement a system to transfer case eligibility, management, anti-fraud and statewide reporting information between the four consortia.

Statewide Automated Child Support System (SACSS). This statewide database will enable district attorneys to locate absent parents, share case information, enforce support orders and collect monthly child support payments. The Budget Act of 1996 included a \$14.7 million General Fund augmentation for implementation because of the expiration of enhanced federal funding at 90-percent federal funds and 10-percent nonfederal funds on September 30, 1995. Recently enacted federal welfare reform legislation extended SACSS enhanced federal funding until September 30, 1997. Therefore, the \$14.7 million will not be expended in 1996-97. SACSS is currently implemented in 23 district attorney offices and the Governor's Budget includes \$91.7 million (\$7.6 million General Fund), an increase of \$30.4 million (\$3.1 million General Fund) in 1996-97, to continue system implementation in district attorney offices.

Child Welfare Services/Case Management System (CWS/CMS). CWS/CMS will automate tracking and reporting information for child welfare services, foster care and adoptions. The Budget Act of 1996 assumed enhanced federal funding of

75 percent federal funds and 25-percent nonfederal funds for implementation would expire on September 30, 1995. Recently enacted federal welfare reform extended enhanced federal funding to September 30, 1997. Therefore, federal funds will increase in 1996-97 and General Fund expenditures will decrease. The Governor's Budget includes \$63.1 million (\$16.3 million General Fund), a decrease of \$494,000 (\$2.7 million General Fund) in 1996-97, and \$6.9 million (\$3 million General Fund) in 1997-98 for full system implementation in all 58 counties.

Statewide Automated Fingerprint System (SFIS). SFIS is an important tool to detect and reduce multiple case fraud in the TANF and Food Stamp programs given the new time limits and other restrictions on the receipt of aid. The Budget Act of 1996 assumed an August 1996 Request for Proposal release date for a system development vendor, contract award in April 1997, and full implementation by February 1998. However, contract award is now scheduled for June 1997 and full system implementation will occur by July 1998. The Governor's Budget includes \$6 million (\$3 million General Fund) in 1997-98 for system development and partial implementation which will result in offsetting savings of \$3.9 million (\$1.8 million General Fund).

DEPARTMENT OF HEALTH SERVICES

Medi-Cal

Medi-Cal is California's version of Medicaid, which is a federally required entitlement program to provide health care to public assistance recipients and other selected low-income persons who lack other

coverage. In addition to basic federally required services, Medi-Cal offers a broad range of services which compare favorably to most employer funded health plans and to Medicaid benefits in other states. At the same time, overall costs per beneficiary are lower than in all other large states.

Expenditures. In 1996-97, Medi-Cal expenditures are estimated to be \$18.4 billion (\$6.9 billion General Fund), General Fund expenditures will exceed 1995-96 by 10.4 percent. In 1996-97, there is an increase of \$433 million General Fund above the 1996 Budget Act appropriation. Much of the increase in General Fund costs is due to the federal government's failure to fund an estimated \$216 million in costs of services to illegal immigrants. Also contributing to the increase were growth in caseload, price increases, increased use of services, and new issues such as court ordered payments in Medicare crossover lawsuits, the

expansion of eligibility for family planning services, and the addition of several new higher cost drugs.

For 1997-98, Medi-Cal local assistance spending is projected to total \$18.4 billion (\$6.9 billion General Fund). Figure HW-7 displays year-to-year comparisons. Significant increases occur in statutorily required hospital construction capital debt payments, drug costs, increased Medicare health insurance premium rates, and increased use of federal Medicaid home and community based waivers to place more developmentally disabled clients in the community. The federal medical assistance percentage (FMAP) share has increased from 50.23 percent to 51.23 percent, effective October 1, 1997, resulting in General Fund savings of \$103.2 million in 1997-98. This increased federal share also affects costs of programs administered in other state agencies resulting in additional General Fund savings of \$4.6 million.

FIGURE HW-7

Growth of Medi-Cal Caseload and Costs, 1991-92 through 1997-98
(Eligibles in Millions, Dollars in Billions)



HEALTH AND WELFARE

Some programs, such as mental health services, in departments other than the Department of Health Services (DHS) also are able to secure federal Medicaid reimbursements through the Medi-Cal budget. The federal share of such costs is included in Medi-Cal totals, but the state or local matching funds may appear either in the budgets of the other state agencies or local governments. Matching funds outside the Medi-Cal budget will exceed \$900 million in 1997-98 and are not included in the program costs shown previously.

Caseload. Currently, about 5.5 million people—one-sixth of California's population—qualify for Medi-Cal in any given month (see Figure HW-8). The number of people eligible for Medi-Cal is growing at about 1.4 percent in 1997-98 compared to a two percent increase in the State's population in the same period. The number of persons eligible for Medi-Cal who are currently receiving AFDC/TANF cash grants, however, has been declining since 1995, and this trend is expected to continue. This group represents slightly more than one-half of all Medi-Cal eligibles.

The portion of the caseload comprised of aged, blind, and disabled beneficiaries across all eligibility categories is growing at about two percent per year and will reach 1.3 million beneficiaries in 1997-98. These beneficiaries represent 24 percent of all Medi-Cal eligibles. This rate of growth, however, is modest in comparison to the nine other most populous states and the United States as a whole, which are experiencing faster growth rates.

Figure HW-9 shows federal Health Care Financing Administration (HCFA) eligibility and expenditure data from federal fiscal year 1995 for

FIGURE HW-8

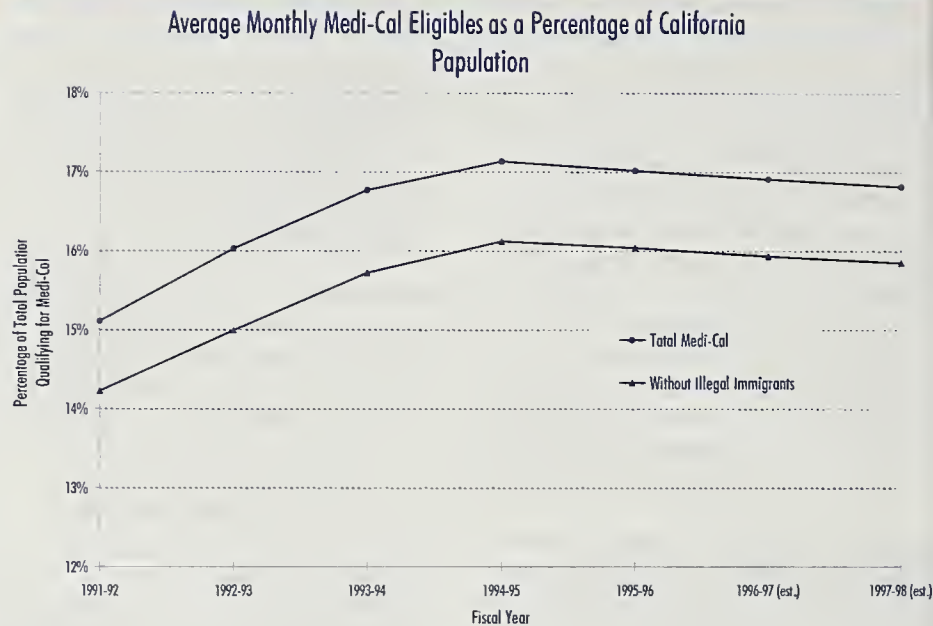


FIGURE HW-9

Medicaid Provider Payments and Number of Recipients for the Ten Most Populous States, October 1996

	Medicaid Provider Payments (Dollars in Millions)		Medicaid Recipients (Data in Thousands)		Annual Dollar Cost per Recipient
	Medicaid Payments FFY 1995*	Percent of U.S. Total	Number of Recipients FFY 1995*	Percent of Jurisdiction's October 1995 Population	
National Total	\$120,140.9	100.0	36,282	13.8	\$3,311
California	10,521.2	8.8	5,017	15.9	2,097
Texas	6,564.7	5.5	2,562	13.7	2,562
New York	22,086.5	18.4	3,035	16.7	7,276
Florida	4,802.3	4.0	1,735	12.2	2,768
Pennsylvania	4,632.7	3.9	1,230	10.2	3,766
Illinois	5,599.8	4.7	1,552	13.1	3,608
Ohio	5,585.1	4.6	1,533	13.7	3,644
Michigan	3,409.2	2.8	1,168	12.2	2,918
New Jersey	3,812.8	3.2	790	9.9	4,828
Georgia	3,076.4	2.6	1,147	15.9	2,681

*Source: Health Care Financing Administration, November 1996

Excludes state-only payments and eligibles

the ten most populous states. Figure HW-10 identifies the general eligibility thresholds for Medicaid used by the ten most populous states. Continuing with recent trends, California has one of the highest percentages of total population covered by Medicaid, provides the second highest eligibility level of the ten most populous states, and has one of the lowest average cost-per-recipient rates in the nation—\$2,097 per recipient, versus a national average of \$3,311 per recipient.

Benefits. All states are required by the federal government to provide certain services, including physician, nurse practitioner, and nurse-midwife services; hospital inpatient and outpatient services; specified nursing home care; laboratory and X-ray services; home health care; and early and periodic screening, diagnosis and treatment services for children until age 21.

In addition, the federal government provides matching funds for 34 optional services. Such services include: outpatient drugs, adult dental, optometry, hospice, chiropractic, and occupational therapy. All states provide some optional services, and many states (including California) provide these optional services both for categorically needy (receiving public assistance) and medically needy (not receiving public assistance, but still qualifying for Medi-Cal based on income and other eligibility factors) beneficiaries.

California is second only to Wisconsin in the number of optional benefits provided to beneficiaries; Wisconsin provides 33 optional services, while California provides 32. Of the ten most populous states, California (see Figure HW-11) provides the most services, followed by New Jersey (providing 28 optional services to categorically needy beneficiaries) and New York (providing

26 optional services to all Medicaid beneficiaries).

Medical costs vary considerably among the various categories of persons eligible for Medi-Cal. For example, a member of a Medi-Cal family eligible for AFDC/TANF is estimated to use benefits costing \$100 per month in 1997-98, whereas a disabled person in long-term care will use over \$4,500 in benefits per month. These differences in costs are illustrated in Figure HW-12.

Managed Care. Traditionally, the Medi-Cal program has been almost entirely a fee-for-service system of health care delivery in which qualified providers are paid when they provide particular services. Since 1993, state law has required that certain eligibility categories be converted from fee-for-service to managed care. Those beneficiaries without an established primary care provider relationship are to be assigned

FIGURE HW-10

Medicaid Eligibility Levels for a Family of Three in the Ten Most Populous States August 1996

	AFDC Eligibility Level	Percent of Poverty	Medicaid MN Eligibility Level	Percent of Poverty
California	\$7,284	56%	\$11,208	86%
Texas	2,256	17%	3,204	25%
New York	7,884	61%	9,800	76%
Florida	3,636	28%	3,636	28%
Pennsylvania	5,052	39%	5,604	43%
Illinois	4,524	35%	5,904	45%
Ohio	4,092	32%	—	—
Michigan	5,868	45%	6,804	52%
New Jersey	5,316	41%	6,804	52%
Georgia	5,088	39%	4,500	35%
10 State Average	\$5,100	39%	\$6,385 *	49%

Source: National Governor's Association, 1996; *Excluding Ohio

FIGURE HW-11

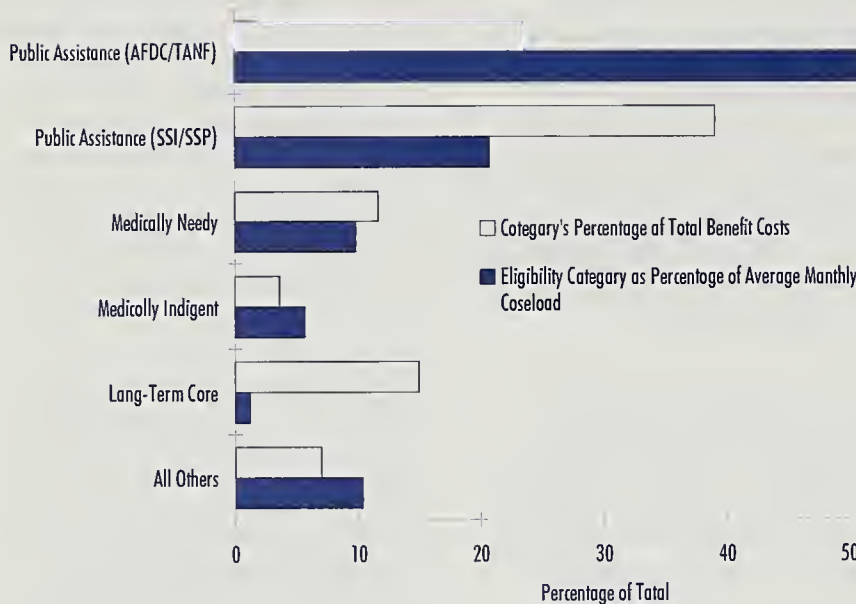
Number of Optional Benefits Provided by the Ten Most Populous States

	Cash Grant Recipients	Medically Needy Recipients
California	32	32
Texas	23	23
New York	26	26
Florida	24	19
Pennsylvania	21	12
Illinois	16	16
Ohio	25	0
Michigan	24	24
New Jersey	28	21
Georgia	21	19

Source: Health Care Financing
Administration, October 1995

FIGURE HW-12

Medi-Cal Cost by Eligibility Category 1997-98



to a managed health care plan if one is available in the community. Currently, over 1.2 million Medi-Cal beneficiaries are enrolled in managed care plans, and DHS expects 3.2 million beneficiaries to be enrolled in managed care plans in 1997-98 (see Figure HW-13).

A key delivery system model in managed care is the two-plan county model. DHS selected 12 counties to offer two managed care plans from which beneficiaries can choose. One plan, the "local initiative," will be sponsored by a county-established agency, while the other, a "mainstream" plan, will be a commercial plan selected by DHS through a competitive bidding process.

By making more than one plan available, beneficiaries have a choice among plans. Additionally, the two-plan model allows beneficiaries to choose among *provider types*; the commercial plans will consist largely of commercial providers who serve privately-insured individuals while the local initiative will consist largely of providers who have traditionally served the Medi-Cal population (including safety net providers such as Federally Qualified Health Centers and disproportionate share hospitals). The model assures continued participation by traditional providers and maximizes the number of different types of providers from whom beneficiaries can receive services. Finally, counties and traditional Medi-Cal providers are given the opportunity to develop managed care plans of their own, which may compete with commercial plans in the future for privately-insured patients as well as Medi-Cal beneficiaries.

Two other managed care models are also being used. The Geographic Managed Care (GMC) model in Sacramento allows the State to

FIGURE HW-13

Percentage of Medi-Cal Beneficiaries Enrolled in Managed Care Plans

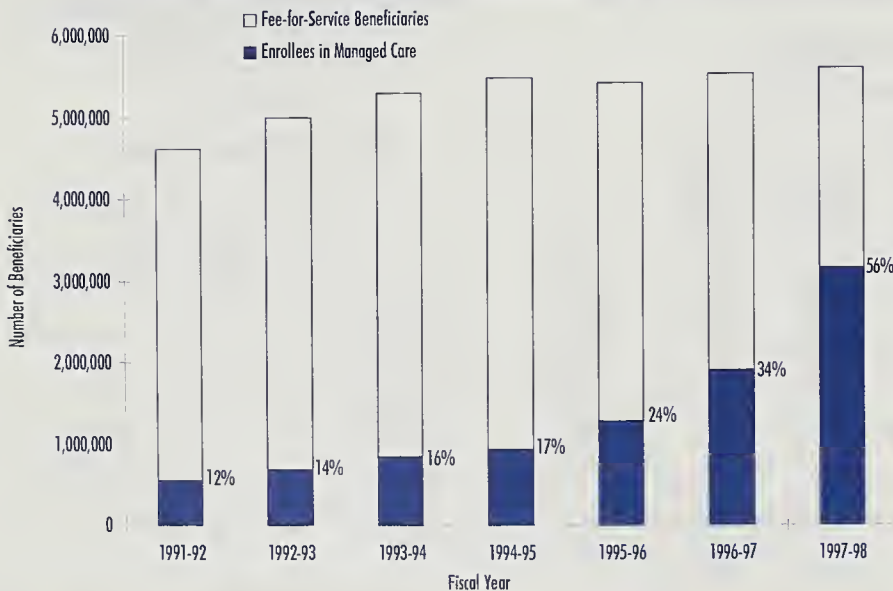
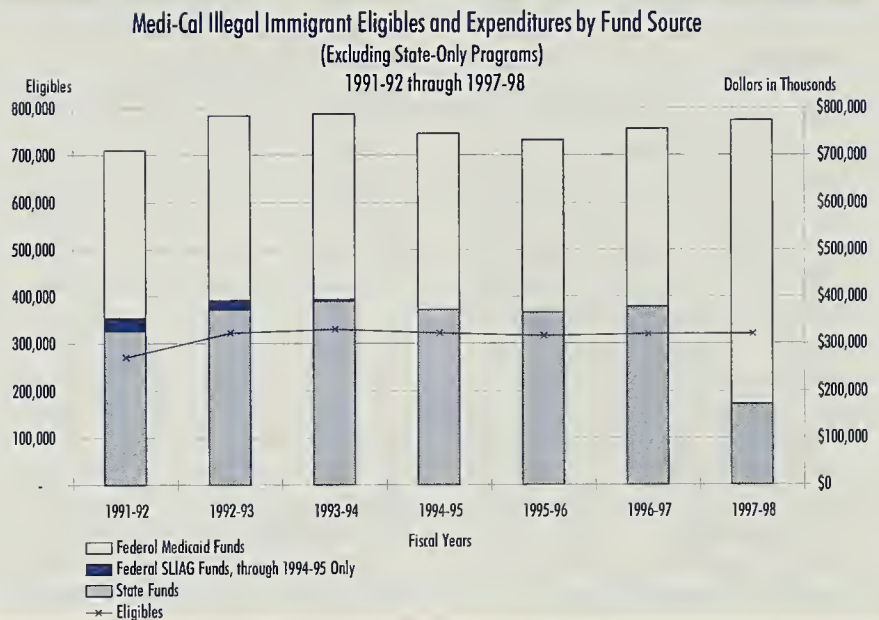


FIGURE HW-14



Program Changes

Federal Funding for Illegal Immigrants.

Federal immigration policy and law require that California provide Medi-Cal benefits for emergency services, including labor and delivery, to illegal immigrants. Excluding state-only programs, costs for these services and associated state and county administrative expenses are projected to be \$756 million (\$377 million General Fund) in 1996-97 and \$773 million (\$386 million General Fund) in 1997-98 (see Figure HW-14). The federal funding is based on the federal medical assistance percentage (FMAP), which is slightly over 50 percent of total payments.

Federal law authorizes payments to states for the full cost of Medicaid emergency services to illegal immigrants, but funds beyond the usual FMAP level have not yet been appropriated by the federal government. The Budget assumes that effective October 1, 1997, the federal budget will make an additional \$216 million available to partially compensate California for these

costs. The impact of this fund shift is reflected in Figure HW-14.

Medi-Cal Impact of Federal Welfare Reform. This landmark federal legislation, discussed previously in the chapter titled *Reforming California's Welfare System* and earlier in this chapter under the Department of Social Services, also has a significant impact on the Medi-Cal Program. The following information summarizes this impact:

- ◆ **Eligibility for Medi-Cal.** Under previous federal law, persons eligible for AFDC were automatically entitled to coverage under California's Medi-Cal Program. Federal law eliminates this automatic linkage, but now makes persons eligible for Medi-Cal if they meet the AFDC eligibility standards in place on July 16, 1996. These income and resource standards may be modified to a limited extent. At present, the Budget assumes no costs or savings in Medi-Cal resulting from

this revised linkage to the former AFDC Program.

- ◆ **Emergency Medical Services.** Provisions of federal law require all states to provide, at a minimum, emergency medical services to all immigrants whether they are in the United States legally or illegally.
- ◆ **Existing Qualified Nonexempt Aliens.** County administrative costs will increase by \$17 million General Fund as "qualified nonexempt aliens" residing in the United States on August 22, 1996, are discontinued from SSP due to recent federal law changes included in welfare reform. As a state option, these persons may remain eligible for federally-shared full-scope Medi-Cal services, but their eligibility will no longer be determined by the Social Security Administration. The Budget reflects continued Medi-Cal eligibility for these qualified aliens.

◆ **New Qualified Nonexempt Aliens.** Savings of \$2.3 million General Fund are identified in Medi-Cal as a result of limiting benefits to emergency medical services only instead of full-scope services for "qualified nonexempt aliens" who arrive in the country after August 22, 1996. Legislation will be introduced to conform state statutes with federal law. This legislation, assumed to be effective July 1, 1997, will be proposed to discontinue those arriving in the country after August 22, 1996, from full-scope Medi-Cal eligibility. A portion of the increased county administrative costs identified previously will be used for eligibility determination for these persons.

◆ **State-Only Prenatal Services and Long-Term Care Services.** Federal law prohibits means-tested public benefit programs for illegal immigrants except for emergency services. Consistent with federal law, the Governor's Budget assumes that prenatal benefits for illegal immigrants will be discontinued effective July 1, 1997. State legislation will be proposed to permit California to phase out, rather than immediately discontinue, long-term care to current beneficiaries over a transitional period.

Eliminating Alcohol or Drug Addiction as a Disability. Although some savings were anticipated in the 1996 Budget Act as a result of a change in federal law which eliminated addiction to alcohol or drugs as criteria for qualifying for SSI/SSP, savings of approximately \$28 million General Fund are now estimated based on the changes in the federal definitions of disability and related changes in eligibility requirements which became fully effective in January 1997.

◆ **Human Growth Hormone for Treatment of AIDS.** California law provides that Medi-Cal AIDS patients shall receive any drug approved by the federal Food and Drug Administration for treatment of AIDS. Human growth hormone, recently approved for the purpose of helping AIDS patients maintain body weight, will cost about \$240 per day for six months for each beneficiary who needs this treatment and can tolerate the drug regimen. General Fund costs will increase \$32 million and \$58 million in 1996-97 and 1997-98, respectively.

◆ **Medicare "Crossover" Lawsuits.** Court orders require that the State pay Medicare co-insurance and deductibles for medical transportation and physician services for "crossover" beneficiaries at an estimated General Fund cost of \$56.4 million in 1996-97 and \$65.4 million in 1997-98. A "crossover" beneficiary is an individual who qualifies for both Medicare and Medi-Cal benefits based on age, income and resources.

◆ **Efficiencies in Long Term Care.** The Budget proposes three changes to nursing care that will generate increased savings without compromising the quality of patient care. Currently, hospitals typically do not transfer patients to nursing facilities on the weekends, and instead Medi-Cal pays hospitals an "administrative day" rate of about \$215 plus ancillary costs for weekend days when only nursing home care is required and the patient is awaiting transfer on the next weekday. The Budget proposes to pay hospitals the statewide average nursing home rate of about \$83 during those weekend days. This will create an incentive for hospitals to seek weekend nursing home admission when the patient is ready, and will reduce Medi-Cal costs by the difference

between the two rates. Additionally, nursing facilities are currently authorized to charge for "bed hold days" while their nursing patients are temporarily in acute inpatient care. Given the statewide occupancy rate of 85 percent for nursing facility beds, Medi-Cal proposes to discontinue payments for empty beds. This payment process was originally authorized to assure bed availability when the patient is discharged from acute care. However, this is no longer necessary. Finally, by placing a temporary moratorium on the licensing of new distinct part nursing facility beds, the rate of growth of more costly Medi-Cal facilities will decrease. Over time, patients will be discharged to less expensive nursing facilities which provide the same level of care. Total savings of \$10.1 million General Fund will result from the implementation of these proposals.

◆ **Efficiencies in Tests, Durable Medical Equipment and Medical Supplies.** Utilization reports produced by the Medi-Cal system have identified several areas where increased prior authorization reviews by medically trained staff could generate significant savings. The Budget proposes to implement new controls on billing for expensive and often unnecessary noninvasive tests, together with placing monthly limits per beneficiary on specified durable medical equipment, medical supplies and laboratory services. These efforts are anticipated to save \$17.7 million General Fund.

◆ **Drug Ingredient Costs, Drug Rebate Collections.** Federal law continues to require Medi-Cal to reimburse pharmacies for drug ingredient costs at a level which reflects as close as possible the actual cost of ingredients to pharmacies. Based on payment data, it appears that the Medi-Cal Program can make

changes in its rate to better approximate actual costs. As a result, the Budget proposes to restructure the methodology used to calculate drug ingredient costs. Further, consistent with a DHS review of the drug rebate program in Medi-Cal during 1995-96, the Budget proposes to impose an interest charge on drug manufacturers for untimely drug rebate payments. This incentive will improve DHS' drug rebate collection process, which is currently limited because enforcement mechanisms are not available. Together, these two changes will result in savings of \$9.9 million General Fund.

PUBLIC HEALTH

The 1997-98 Governor's Budget expands protection against infectious diseases, meets the rapidly increasing demand for AIDS drug treatment, and maintains the Administration's commitment to health exams, immunizations and other prevention programs for low-income children and to preventing unwed and teenage pregnancy and domestic violence.

Emerging Infectious Diseases. To protect the health of the public, the Governor's Budget provides \$3.4 million General Fund to expand investigations and surveillance of emerging infectious diseases. The incidence of new, reemerging or drug-resistant infections, including *E Coli 0157:H7* and *Cyclospora*, is increasing in California, causing significant hospital costs and business losses. Increased investigation and surveillance efforts will help control outbreaks and prevent the spread of these and other emerging infectious diseases.

Tuberculosis Control Program Expansion. In an effort to further protect the public from exposure to tuberculosis (TB), the Governor's Budget

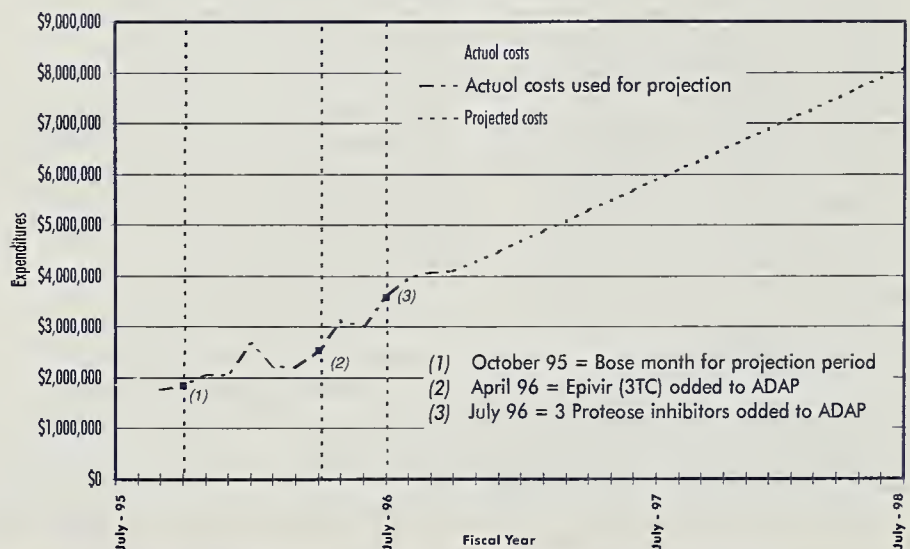
includes \$2.9 million General Fund to house TB patients who are unwilling to complete prescribed drug treatments or who are homeless and thus unable to complete their treatment. This Program will prevent secondary TB infections and will reduce inpatient hospital costs to the point that offsetting inpatient cost savings to the Medi-Cal Program will limit the net General Fund cost of this program to \$1.3 million.

HIV/AIDS Program Expansion. The 1996 Budget Act provided \$125.9 million (\$69.1 million General Fund) for HIV/AIDS prevention and treatment programs in California. These programs include drug treatment through the AIDS Drug Assistance Program (ADAP), education and prevention programs, epidemiologic studies, no-cost HIV testing, early intervention, housing assistance, short-term insurance coverage, and planning/technical

assistance. The Governor's Budget expands California's HIV/AIDS prevention and treatment programs in 1996-97 by \$19 million from increased federal funds and drug manufacturer rebates, and in 1997-98 by \$51.6 million including \$15.5 million General Fund. The remaining \$36.1 million will be funded by the federal government, rebates from drug manufacturers, and with proposed statutory change, by matching funds from Eligible Metropolitan Agencies. Most of these funds will be used to meet the significantly increasing demand for new and more effective drugs (see Figure HW-15). Funds are also provided for viral load testing, a new method for evaluating the effectiveness of drug therapies. The Budget also redirects funds from HIV testing to support additional HIV and sexually transmitted disease outreach counseling and referral services.

FIGURE HW-15

AIDS Drug Assistance Program (ADAP) Monthly Expenditures



Child Health Exams and Immunizations. For 1997-98, caseload in the Child Health and Disability Prevention Program (CHDP), which provides health assessments and immunizations to low-income children, will increase 8.2 percent over 1996-97. The Budget includes \$36.8 million General Fund and \$51.5 million from the Cigarette and Tobacco Products Surtax Fund-Proposition 99 (CTPSF) to support this caseload. This includes an increase of \$4.1 million for caseload growth and \$15.3 million to expand coverage for vaccines by expanding the age-range of children eligible for immunizations for measles, mumps and rubella (MMR) and other diseases.

Care and Treatment Programs. Caseload for the California Children's Services Program (CCS) will increase 1.8 percent from 1996-97 as the number of CCS clients shifting to Medi-Cal eligibility levels off. The Budget provides a total of \$44.9 million General Fund for this caseload, including \$2 million for increased treatment costs. The Budget also adds \$2.7 million (\$1.4 million General Fund and \$1.3 million federal funds) for the first-year costs of a four-year project to automate claims processing through the state fiscal intermediary and to support and improve case management for all county CCS programs. Caseload adjustments for the Genetically Handicapped Persons Program (GHPP) are minor, requiring an increase of \$308,000 over 1996-97 costs. The Budget includes \$12.4 million General Fund for 1997-98 GHPP caseload.

Childhood Lead Poisoning Prevention Program. To continue to protect California's children from the effects of lead poisoning, the Governor's Budget includes \$9.5 million General Fund to support the Childhood Lead Poisoning Prevention Program

(CLPPP). The CLPPP includes prevention efforts and case management services for approximately 4,800 children with excessive blood lead levels. The Budget also includes \$3.2 million (CTPSF and General Fund) to continue blood lead testing in the CHDP Program and assumes enactment of legislation authorizing the use of fees as a special tax.

Preventing Unwed and Teenage Pregnancy. Continuing the Administration's commitment to preventing unwed and teenage pregnancy, the Budget reflects full implementation of the community challenge grant, media campaign, and male responsibility components of the Partnership for Responsible Parenting. For the \$20 million challenge grant component, DHS has completed a statewide outreach effort to recruit applicant organizations with new, innovative local projects to prevent unwed and teenage pregnancy. Consistent with the enabling legislation for this innovative prevention program, the Budget includes reappropriation authority to provide these grant recipients level funding over the first 30-month phase of the program which sunsets in June 1999. DHS also will award a multi-year contract for the media campaign later this month and the expanded campaign will begin in March. The program is supported by \$13.25 million in 1996-97 and \$8.5 million for 1997-98. The Budget also maintains \$2.85 million for the male responsibility component which focus on the positive role adolescent and young men can have in preventing teen pregnancy.

Preventing Unintended Pregnancy. For 1997-98, the Budget reflects full implementation of the expanded service provider network

begun in 1996-97. In order to serve the more than one million low-income men and women in need of contraceptive services, the Budget provides \$113.2 million (\$85.8 million General Fund) within the Medi-Cal Program. This funding includes \$46 million redirected from public health contracts which this expanded program replaces.

For further discussion of these issues, see the chapter titled Prevention Agenda Expansion.

Domestic Violence Prevention Initiative. Continuing the Administration's efforts to prevent domestic violence, the Budget continues \$2.5 million for up to 30 new local projects for shelter-based services and community intervention projects. The Budget also maintains \$11.5 million for the existing Battered Women Shelter Program, which has dramatically increased access to housing and other shelter-based services for the victims of domestic violence.

Proposition 99 Program Reauthorization. The Governor's Budget proposes to extend the statutory authority for the current health education, indigent health care, and tobacco-related disease research programs which were established in response to the Tobacco Tax and Health Protection Act of 1988 (Proposition 99) and have been supported since by tobacco tax revenues. To provide more stability for these programs, the reauthorization legislation will be introduced to eliminate the sunset dates for these critical ongoing programs and funding will again be proposed in the budget bill rather than in separate legislation.

For 1996-97, revenues are estimated to be \$454 million, a slower decline than projected in the 1996 Budget Act. Prior year revenues, interest

earnings and prior year reserves are also higher than anticipated. Anticipated caseload demand for the Access for Infants and Mothers (AIM) Program has not materialized and CHDP health screening costs are below projections, producing sufficient resources to maintain 1996-97 funding levels as budgeted for county indigent health and other programs funded with tobacco tax revenues.

For 1997-98, estimated revenues will decline by 0.2 percent, to \$452.9 million. Higher than expected reserves from 1996-97 will provide \$108.7 million for anti-tobacco education programs, \$26.4 million for tobacco-related disease research, and support a \$0.9 million increase to the \$197 million in ongoing funding provided for clinic and county indigent health programs. In addition, the Budget retains the Initiative's original revenue allocations and

reinstates the level of tobacco tax support for CHDP consistent with the CHDP caseload expansion resulting from the post-Proposition 99 legislation. Finally, the Budget redirects \$10 million from caseload savings in AIM to the Major Risk Medical Insurance Program to provide continued health insurance coverage for 19,500 people unable to acquire private coverage (see Figures HW-16, HW-17 and HW-18).

FIGURE HW-16

**Cigarette and Tobacco Products Surtax Fund
Revenues and Expenditures - 1995-96 Actual**

(Dollars in Thousands)

Revenues:	Boord of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	—	\$62,603	\$10,778	\$4,334	\$40,804	\$2,457	\$6,946	\$127,922
Prior Year Adjustment	—	4,796	2,414	736	1,805	377	4,005	14,133
Revenues	\$880	92,204	161,357	46,102	23,051	23,051	115,255	461,900
Interest	—	3,671	869	141	1,502	217	755	7,155
Total Revenues	\$880	\$163,274	\$175,418	\$51,313	\$67,162	\$26,102	\$126,961	\$611,110
Transfers:								
Access for Infants and Mothers	—	—	-\$4,939	-\$13,676	—	—	-\$13,800	-\$32,415
Major Risk Medical Insurance Program	—	—	-18,000	-11,000	—	—	-1,000	-30,000
Habitat Conservation Fund	—	—	—	—	—	-\$3,402	-11,660	-15,062
Total Transfers	\$0	\$0	-\$22,939	-\$24,676	\$0	-\$3,402	-\$26,460	-\$77,477
Net Resources	\$880	\$163,274	\$152,479	\$26,637	\$67,162	\$22,700	\$100,501	\$533,633
Expenditures:								
Department of Health Services	—	\$30,101	\$131,440	\$24,875	\$1,696	—	\$89,536	\$277,648
Department of Education	—	16,741	—	—	—	—	313	17,054
University of California	—	—	—	—	4,000	—	—	4,000
California Conservation Corps	—	—	—	—	—	\$237	—	237
Forestry and Fire Protection	—	—	—	—	—	323	—	323
Fish and Game	—	—	—	—	—	6,311	—	6,311
Parks and Recreation	—	—	—	—	—	11,041	—	11,041
Water Resources Control Board	—	—	—	—	—	752	—	752
Boord of Equalization	\$880	—	—	—	—	—	—	880
Direct Pro Rata Charges	—	87	28	3	48	—	126	292
Total Expenditures	\$880	\$46,929	\$131,468	\$24,878	\$5,744	\$18,664	\$89,975	\$318,538
Reserve	—	\$116,345	\$21,011	\$1,759	\$61,418	\$4,036	\$10,526	\$215,095

HEALTH AND WELFARE

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Family Physician Training Program.

The Family Physician Training Program, which is administered by the Office of Statewide Health Planning and Development, provides grants to

medical schools and specialized training programs to increase the availability of family practice resident, nurse practitioner, and physician assistant training positions in California. Currently, many California physicians have specialized in specific fields of medicine, rather

than general family practice which is necessary to serve the basic needs of families. With the increased emphasis on managed care, the Governor's Budget proposes an additional \$2.3 million General Fund, for a total of \$5.2 million for this Program. The augmentation will fund

FIGURE HW-17

Cigarette and Tobacco Products Surtax Fund Revenues and Expenditures - 1996-97 Revised (Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	—	\$116,345	\$21,011	\$1,759	\$61,418	\$4,036	\$10,526	\$215,095
Revenues	\$949	90,610	158,568	45,305	22,653	22,653	113,262	454,000
Interest	—	3,700	900	100	1,500	200	800	7,200
Total Revenues	\$949	\$210,655	\$180,479	\$47,164	\$85,571	\$26,889	\$124,588	\$676,295
Transfers:								
Access for Infants and Maternal	—	—	-\$23,503	-\$12,166	—	—	-\$3,831	-\$39,500
Major Risk Medical Insurance Program	—	—	-18,000	-11,000	—	—	-1,000	-30,000
Habitat Conservation Fund	—	—	—	—	—	-\$3,992	-11,406	-15,398
Total Transfers	\$0	\$0	-\$41,503	-\$23,166	\$0	-\$3,992	-\$16,237	-\$84,898
Net Resources	\$949	\$210,655	\$138,976	\$23,998	\$85,571	\$22,897	\$108,351	\$591,397
Expenditures:								
Department of Health Services	—	\$86,486	\$127,521	\$21,774	\$3,697	—	\$80,059	\$319,537
Office of Statewide Health Planning and Development	—	—	2,500	—	—	—	2,500	5,000
Department of Education	—	43,044	—	—	—	—	—	43,044
University of California	—	—	—	—	60,422	—	—	60,422
California Conservation Corps	—	—	—	—	—	\$243	—	243
Forestry and Fire Protection	—	—	—	—	—	325	—	325
Fish and Game	—	—	—	—	—	6,508	—	6,508
State Coastal Conservancy	—	—	—	—	—	100	—	100
Parks and Recreation	—	—	—	—	—	13,124	—	13,124
Water Resources Control Board	—	—	—	—	—	727	—	727
Board of Equalization	\$949	—	—	—	—	—	—	949
Direct Pro Rata Charges	—	577	21	5	205	—	—	808
Total Expenditures	\$949	\$130,107	\$130,042	\$21,779	\$64,324	\$21,027	\$82,559	\$450,787
Reserve	—	\$80,548	\$8,934	\$2,219	\$21,247	\$1,870	\$25,792	\$140,610

25 new family practice resident training positions and 24 new nurse practitioner training positions.

DEPARTMENT OF MENTAL HEALTH

Sexually Violent Predator Program.

The Sexually Violent Predator (SVP) program, established by Chapter 763,

Statutes of 1995, safeguards public safety by identifying and providing treatment for sexually violent felons in an effort to keep them from committing further crimes upon their release from prison. Under the SVP program, the Department of Mental Health (DMH), in cooperation with the California Department of Corrections (CDC) and the Board of Prison

Terms (BPT), screens and refers dangerous repeat offenders for evaluation and potentially to trial for civil commitment.

If a jury finds that an offender is a danger to the health and safety of others and is likely to engage in sexually violent criminal behavior upon release, the offender is

FIGURE HW-18

Cigarette and Tobacco Products Surtax Fund Revenues and Expenditures - 1997-98 Estimated (Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallotted Account	Total
Beginning Balance	—	\$80,548	\$8,934	\$2,219	\$21,247	\$1,870	\$25,792	\$140,610
Revenues	\$1,264	90,327	158,073	45,164	22,582	22,582	112,908	452,900
Interest	—	3,700	800	100	800	200	800	6,400
Total Revenues	\$1,264	\$174,575	\$167,807	\$47,483	\$44,629	\$24,652	\$139,500	\$599,910
Transfers:								
Access for Infants and Mothers	—	—	-\$19,665	-\$12,160	—	—	-\$12,675	-\$44,500
Major Risk Medical Insurance	—	—	-18,000	-15,033	—	—	-6,967	-40,000
Habitat Conservation Fund	—	—	—	—	—	-3,653	-11,371	-15,024
Total Transfers	—	—	-\$37,665	-\$27,193	\$0	-\$3,653	-\$31,013	-\$99,524
Net Resources	\$1,264	\$174,575	\$130,142	\$20,290	\$44,629	\$20,999	\$108,487	\$500,386
Expenditures:								
Department of Health Services	—	\$72,419	\$127,521	\$19,879	\$1,697	—	\$106,316	\$327,832
Department of Education	—	35,407	—	—	—	—	—	35,407
University of California	—	—	—	—	24,699	—	—	24,699
California Conservation Corps	—	—	—	—	—	\$245	—	245
Forestry and Fire Protection	—	—	—	—	—	325	—	325
Fish and Game	—	—	—	—	—	6,153	—	6,153
Wildlife Conservation Board	—	—	—	—	—	936	—	936
Parks and Recreation	—	—	—	—	—	12,046	—	12,046
Water Resources Control Board	—	—	—	—	—	726	—	726
Board of Equalization	\$1,264	—	—	—	—	—	—	1,264
Direct Pro Rata Charges	—	857	18	5	40	—	1	921
Total Expenditures	\$1,264	\$108,683	\$127,539	\$19,884	\$26,436	\$20,431	\$106,317	\$410,554
Reserve	\$0	\$65,892	\$2,603	\$406	\$18,193	\$568	\$2,170	\$89,832

committed to DMH for treatment for two years. An SVP may be recommitted if determined to be a threat to public safety. When it is determined the person's mental disorder has changed so that the person is no longer likely to commit acts of sexual violence, the person is released. To date, 913 prisoners and parolees have been referred for evaluation. Of these, 658 have been determined to meet the criteria for a clinical evaluation, 101 have a clinical evaluation pending and 285 have had clinical evaluations which indicate a positive match with the criteria for an SVP. Of those individuals with a positive match, 280 have been referred to district attorneys who have filed 154 petitions for commitment with the courts. The courts have ruled in 55 cases and 99 cases are awaiting probable cause hearings. Of the 55 cases, probable cause has been found in 32 cases and 21 cases are awaiting jury trials. Ten persons have been committed to the treatment program.

The Governor's Budget provides \$11.7 million in 1996-97 and \$16.6 million in 1997-98 for the evaluation and treatment of SVPs.

Mental Health Managed Care Program. Chapter 633, Statutes of 1994, established the Mental Health Managed Care Program and transferred the responsibility for the provision of Medi-Cal psychiatric inpatient care from the Department of Health Services (DHS) to the Department of Mental Health (DMH). The Budget provided \$129.5 million General Fund in 1996-97 and the 1997-98 Governor's Budget proposes \$140.3 million General Fund for the inpatient managed care program.

Chapter 197, Statutes of 1996, implements the second phase of managed care consolidation by requiring that the responsibility and

funding for the remaining Medi-Cal fee-for-service specialty mental health services be transferred from DHS to DMH by July 1, 1997. Local managed care plans will be responsible for mental health treatment provided by psychiatrists, psychologists, outpatient clinics, outpatient hospitals, and nursing facilities. The 1997-98 Budget provides \$26.7 million General Fund for these specialty mental health managed care programs.

Early Mental Health Initiative. The Early Mental Health Initiative (EMHI) provides grants to local education agencies (LEAs) to provide school-based services to children in grades K-3 who have behavioral or emotional difficulties which adversely impact their performance in school. To date, approximately 434 programs serving approximately 155,000 children have been funded. The 1996-97 Budget included \$12 million in Proposition 98 funding for 214 school-based programs to serve an estimated 36,000 children. The 1997-98 Budget includes an additional \$3 million for 57 new programs to serve an estimated 9,000 additional children.

Children's System of Care. The Children's System of Care (CSOC) Program provides mental health treatment, counseling, educational, health care and social services to seriously emotionally disturbed (SED) children and their families through an interdisciplinary team of service professionals. The program prevents the placement of SED children into high cost foster care group homes, state hospitals or juvenile correctional facilities. The 1996-97 Budget contained \$17.5 million General Fund for 26 counties (three additional counties are funded entirely from federal funds). The 1997-98 Budget proposes an additional \$9.4 million General Fund to fund ten additional counties.

For further discussion of these latter two issues, see the chapter titled Prevention Agenda Expansion.

DEPARTMENT OF DEVELOPMENTAL SERVICES/ DEPARTMENT OF MENTAL HEALTH

Closure of Developmental Centers.

By the end of 1997-98, the number of clients in the Department of Developmental Services (DDS) developmental centers (DCs) will have declined by more than 3,300 since 1990-91, reflecting a policy of community placement and the impact of the 1994 *Coffelt* settlement. The agreement calls for the State to increase the availability of high-quality, stable and integrated community living arrangements for persons with developmental disabilities and reduce the DC population by 2,000 clients over a five-year period. The DC population reduction goal was reached in October 1996, one and one-half years ahead of the deadline, and the Administration remains committed to a policy of further community placements, where appropriate.

These actions also have led to the closure of Stockton DC in February 1996 and the planned closure of Camarillo State Hospital and DC in June of 1997. Closure of these facilities results in approximately \$40 million in savings and a reduction of approximately 560 positions through 1997-98. Additionally, due to population decreases in other DCs, approximately \$15 million in savings and a reduction of 630 positions will also occur. The California State University (CSU) system will assume control of the Stockton campus in July 1997 to establish a satellite campus for California State University, Stanislaus. The Budget includes a transfer of \$1.7 million

from DDS to CSU for maintaining the facilities at Stockton.

A task force comprised of state and local officials and individuals from business and industry was organized to develop a recommendation for the future use of the Camarillo campus. After evaluating several proposals, which included proposals from the California Youth Authority and CSU, the task force recommended the conversion of the Camarillo campus to a CSU campus. At this time, the CSU system is evaluating the feasibility of this recommendation. The DDS budget for 1997-98 contains 24 positions and \$3.4 million to maintain the Camarillo facilities and grounds for one year after closure.

State Hospital Population. By the end of 1997-98, the number of State judicial, penal code and sexually violent predator commitments to the Department of Mental Health state hospitals will be 2,463, an increase of 200 above the year-end 1996-97 budgeted population. The Budget includes \$10.7 million General Fund (half-year funding) for this additional population. The number of county Lanterman-Petris-Short patients will be 1,070, a decrease of 119 below the 1996-97 population. As the number of state clients continues to increase and the number of county clients continues to decline, the State will bear an increasing proportion of the state hospital overhead costs. With the closure of Camarillo State Hospital and DC, the State reduced its Medi-Cal expenditures in the state hospital system by \$9 million General Fund. To prevent this cost from being shifted to counties, the 1997-98 Budget includes an augmentation of \$9 million General Fund.

DEPARTMENT OF DEVELOPMENTAL SERVICES

Rate Increase for Community Care Facilities. There are approximately 4,000 Community Care Facilities (CCF) which provide services to over 22,000 clients. As a result of the *Coffelt* lawsuit and the decreasing developmental center population, CCFs have become increasingly important. The availability of CCF beds allows clients to reside in a residential setting and facilitates the movement of clients from developmental centers into community placements. The 1996 Budget Act contained \$10.6 million (\$5.8 million General Fund) for a three percent rate increase for CCFs. Recognizing that CCFs are an integral part of the provision of services to developmentally disabled persons in the community, the 1997-98 Governors' Budget includes \$11.7 million (\$6.4 million General Fund) to provide CCFs with an additional three percent rate increase.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

California Mentor Program. The California Mentor Program was established in 1995 in response to the growing concerns about the outcomes of at-risk children. These children, including those living in fatherless families, are more likely to become involved in juvenile crime, become teen parents, become associated with gangs, or drop out of school. The goal of the California Mentor Program is to assist at-risk youths to become productive members of society by matching trained mentors with at-risk youths. The mentors provide discipline, guidance, individualized attention, and serve as role models of success. Results of comparable programs indicate that mentored youth have

improved school grades, lower incidences of drug use, and a higher probability of staying out of trouble. The Administration is committed to the California Mentor Program, believing that we can be as successful.

The Budget proposes \$6 million (\$5 million General Fund and \$1 million federal fund), which includes an additional \$4 million General Fund commitment, to continue and expand the California Mentor Program. The funds will be used to match 37,500 adult mentors with at-risk youths. Funding for the program is expected to transition to the private sector by June 30, 1999.

STATE-LOCAL REALIGNMENT

The State-Local Realignment Initiative of 1991 restructured the state/county partnership in a number of health, mental health and social services programs. Funding responsibility for programs was transferred from the State to the counties. The Initiative also provided an ongoing revenue source for counties by establishing a new one-half-cent sales tax and an increase in motor vehicle license fees.

Total realignment revenues in 1997-98 are estimated to be \$2.67 billion (\$1.77 billion sales tax revenues and \$898 million vehicle license fees). Of this amount, approximately \$2.5 billion will fund the realignment base budget with \$158 million available to fund caseload growth plus growth for the equity, general growth and County Medical Services subaccounts (see Figure HW-19).

Total realignment revenues for 1996-97 are estimated to be \$2.5 billion (\$1.66 billion sales tax revenues and \$852 million vehicle license fees). A total of \$2.4 billion will be

HEALTH AND WELFARE

available to fund the realignment base budget. An additional \$95 million will be available to fund caseload growth plus growth for the equity, general growth, and County Medical Services subaccounts (see Figures HW-20 and HW-21).

Welfare reform assumes no changes in State-Local realignment.

FIGURE HW-19

State-Local Realignment 1997-98 Estimated Revenues and Expenditures (Dollars in Thousands)

Account	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$788,549	\$307,521	\$561,432	\$1,657,502
Vehicle License Fee Account	67,556	771,261	13,529	852,346
Total Base	\$856,105	\$1,078,782	\$574,961	\$2,509,848
Growth Funding				
Sales Tax Growth Account:	\$43,870	\$61,645	\$6,685	\$112,200
Indigent Health Equity Subaccount	—	(5,377)	—	(5,377)
Community Health Equity Subaccount	—	(13,165)	—	(13,165)
Mental Health Equity Subaccount	(4,254)	—	—	(4,254)
State Hospital Mental Health Equity Subaccount	(7,553)	—	—	(7,553)
County Medical Services Subaccount	—	(4,518)	—	(4,518)
General Growth Subaccount	(26,804)	(36,222)	(6,685)	(69,711)
Special Equity Subaccount	(5,259)	(2,363)	—	(7,622)
Vehicle License Fee Growth Account	17,865	25,103	2,722	45,690
Total Growth	\$61,735	\$86,748	\$9,407	\$157,890
Total Realignment ^{1/}	\$917,840	\$1,165,530	\$584,368	\$2,667,738

^{1/} Does not include \$14 million in Vehicle License Collection Account monies since these are not derived from realignment revenue sources.

FIGURE HW-20

State-Local Realignment 1996-97 Estimated Revenues and Expenditures (Dollars in Thousands)

Account	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$767,923	\$278,874	\$558,346	\$1,605,143
Vehicle License Fee Account	50,746	747,914	11,014	809,674
Total Base	\$818,669	\$1,026,788	\$569,360	\$2,414,817
Growth Funding				
Sales Tax Growth Account:	\$20,625	\$28,647	\$3,086	\$52,358
Indigent Health Equity Subaccount	—	(2,482)	—	(2,482)
Community Health Equity Subaccount	—	(6,077)	—	(6,077)
Mental Health Equity Subaccount	(1,964)	—	—	(1,964)
State Hospital Mental Health Equity Subaccount	(3,486)	—	—	(3,486)
County Medical Services Subaccount	—	(2,108)	—	(2,108)
General Growth Subaccount	(12,372)	(16,721)	(3,086)	(32,179)
Special Equity Subaccount	(2,803)	(1,259)	—	(4,062)
Vehicle License Fee Growth Account	16,811	23,347	2,515	42,673
Total Growth	\$37,436	\$51,994	\$5,601	\$95,031
Total Realignment ^{1/}	\$856,105	\$1,078,782	\$574,961	\$2,509,848

^{1/} Does not include \$14 million in Vehicle License Collection Account monies since these are not derived from realignment revenue sources.

FIGURE HW-21

State-Local Realignment
1995-96 Estimated Revenues and Expenditures
(Dollars in Thousands)

Account	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$729,780	\$228,405	\$532,998	\$1,491,183
Vehicle License Fee Account	30,485	721,264	8,318	760,067
Total Base	\$760,265	\$949,669	\$541,316	\$2,251,250
Growth Funding				
Sales Tax Growth Account:	\$38,143	\$50,471	\$25,347	\$113,961
Caseload Subaccount			(20,221)	(20,221)
Indigent Health Equity Subaccount	—	(4,123)	—	(4,123)
Community Health Equity Subaccount	—	(10,097)	—	(10,097)
Mental Health Equity Subaccount	(3,263)	—	—	(3,263)
State Hospital Mental Health Equity Subaccount	(5,791)	—	—	(5,791)
County Medical Services Subaccount		(4,638)	—	(4,638)
General Growth Subaccount	(20,556)	(27,779)	(5,126)	(53,461)
Special Equity Subaccount	(8,533)	(3,834)	—	(12,367)
Vehicle License Fee Growth Account	20,261	26,648	2,697	49,606
Total Growth	\$58,404	\$77,119	\$28,044	\$163,567
Total Realignment ^{1/}	\$818,669	\$1,026,788	\$569,360	\$2,414,817

1/ Does not include \$14 million in Vehicle License Collection Account monies since these are not derived from realignment revenue sources.

PUBLIC SAFETY

The Administration shares the public's interest in reducing violent crime. Accordingly, criminal justice program funding proposed in this budget reflects a continued commitment to make public safety a top priority. Funding to support the various programs within the Youth and Adult Correctional Agency, Department of Justice, Office of Criminal Justice Planning, Commission on Peace Officer Standards and Training, and the California Highway Patrol will grow to approximately \$6.2 billion. This amount reflects a 4.7 percent increase over the revised 1996-97 budget. Highlights of the more notable funding changes included in the 1997-98 Governor's Budget for these programs are further described below.

YOUTH AND ADULT CORRECTIONAL AGENCY

The Secretary for the Youth and Adult Correctional Agency serves as a key policy advisor to the Governor on public safety issues. The Secretary is charged with responsibility for providing day-to-day policy direction and broad administrative guidance to the departments that deliver youth and adult detention services

including the Department of Corrections, Board of Prison Terms, Department of the Youth Authority, Youthful Offender Parole Board, and the Board of Corrections. The Secretary also provides oversight for the Prison Industry Authority, Narcotic Addict Evaluation Authority, and the Office of the Inspector General.

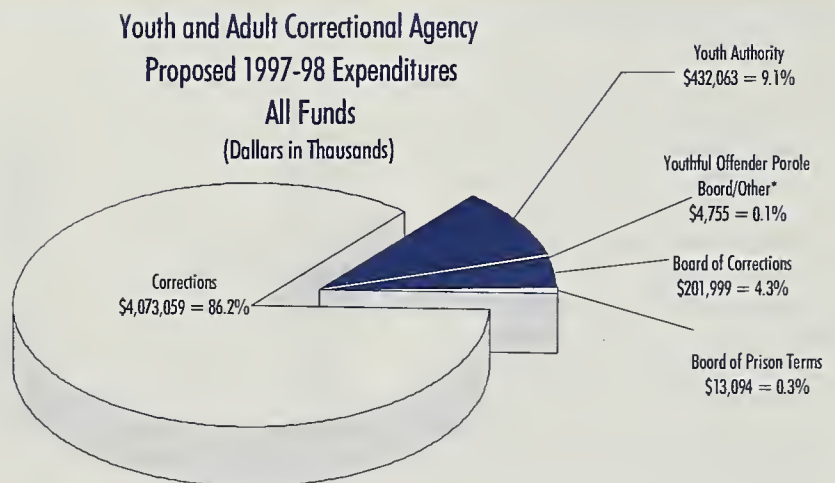
As shown in Figure PUB-1, funding for these programs will total approximately \$4.7 billion in 1997-98. This

amount reflects a 5-percent increase over the revised 1996-97 budget.

FEDERAL CRIME BILL

The Violent Crime Control and Law Enforcement Act of 1994 ("Federal Crime Bill") authorized approximately \$10.3 billion in correctional facility construction grants over the period 1996-2000. The law directs that these grants be used to increase

FIGURE PUB-1



* Includes Agency Secretary

bed capacity for violent offenders either through new construction or expanding existing facilities. Up to 15 percent of a State's grant may be used for correctional construction at the local level. A state or local cash match is required equal to ten percent of the federally eligible project cost. Recipients may not use the grants to supplant funds already budgeted.

Of the \$2.3 billion Congress authorized for the 1996 and 1997 federal fiscal years, \$1.3 billion was appropriated for the two grant components—Violent Offender Incarceration (VOI) and Truth in Sentencing (TIS). Based on the statutory formulas—and assuming that California is eligible for both grant components—it is estimated that the State may be eligible for \$99.1 million from these two years of federal appropriations. (In December 1996, it was announced that California's grant allocation for 1996 alone was \$60.5 million, more than half the amount expected for the two-year period.)

The 1997-98 Governor's Budget estimates that Congress will appropriate 50 percent of anticipated future authorizations over the next three federal fiscal years (i.e., the same percentage as 1997). Given that assumption, California will be eligible for an additional \$320.6 million, or a total of \$419.7 million, during the five-year period of the program.

The Budget proposes a five-year expenditure plan for these funds which will provide critically needed housing for violent offenders. In preparing an allocation plan for these Federal Crime Bill grants, the Administration has considered the acute housing shortages at both the state and local level. There is a need for 16,000 additional county jail beds and 4,000 additional local juvenile detention facility beds. At the state level, all permanent,

temporary, and emergency housing for adult felons will be exhausted after January 2000. Juvenile offenders incarcerated at the state level increasingly are the most violent of the youthful criminal population. Therefore, existing state juvenile facilities must be hardened to provide an increased level of security and expanded to reduce crowding.

The Budget proposes to allocate the maximum amount possible under the program to local governments, and to use the balance of funds to address capacity deficiencies at the state level. Fifteen percent of these funds is recommended for allocation to the Board of Corrections (BOC), with \$14.9 million included in the BOC's 1997-98 local assistance budget, and a total of \$63 million anticipated for the Board over the full five years plus \$1.9 million over this period for administrative costs. Local matching funds of \$6.9 million will be required.

Approximately two-thirds of all anticipated federal funds (\$267.6 million - \$2.2 million support and \$265.4 capital outlay) are proposed in 1997-98 for the California Department of Corrections (CDC) to begin the Federal Crime Bill prison construction program. A total of \$273.3 million is proposed for CDC over the five-year periods for both capital outlay and support. CDC will complete full design preparation for three new prisons and construct one of those three with a combination of federal funds, General Fund, and new lease-revenue authority proposed in the Governor's Budget. Construction for the additional two prisons will be proposed in 1997 through separate legislation using lease-revenue bonds.

The California Department of the Youth Authority (CYA) is recommended to receive \$28.6 million of the federal grants for support and capital outlay over the five-year period, supplemented by \$3.1 million in General Fund state matching funds. BOC's, CDC's, and CYA's plans for the federal funds are discussed in more detail in the department program descriptions which follow.

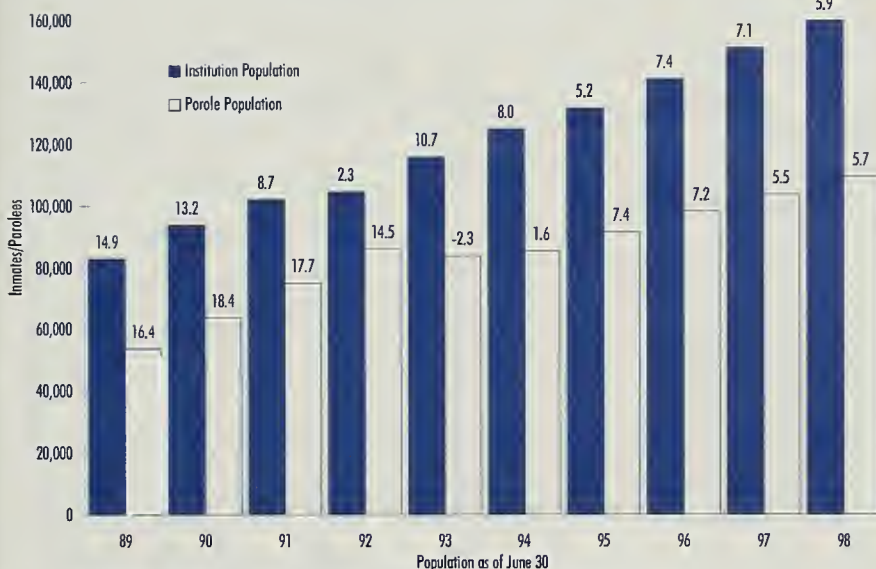
Over the five-year period, there remains a \$52.9 million reserve for contingencies.

Illegal Immigrants. The Federal Crime Bill also authorizes approximately \$3.6 billion under the State Criminal Alien Assistance Program (SCAAP) to reimburse states for the costs of incarcerating criminal alien felons who are in the United States illegally for the period from 1995-2000. Although \$500 million was authorized in the first year of enactment of the 1994 Federal Crime Bill, only \$130 million was actually appropriated. Notwithstanding the fact that California receives a large share of these funds, the amount provided is a fraction of the true cost incurred to incarcerate and supervise these individuals.

As the percentage of illegal immigrants in the state prison system increased from 13.9 percent in fiscal year 1993-94, to 14.6 percent in fiscal years 1996-97 and 1997-98, the state has continued to experience related cost increases due to continued prison growth and operating cost increases. For 1996-97, CDC expects to expend approximately \$478 million for incarceration and parole supervision. In 1997-98, CDC costs are estimated to be \$498 million, an increase of 4.2 percent. In addition, the Department of the Youth Authority expects

FIGURE PUB-2

Department of Corrections Institution and Parole Population Growth



Figures above the bars represent the percentage change from the previous year.

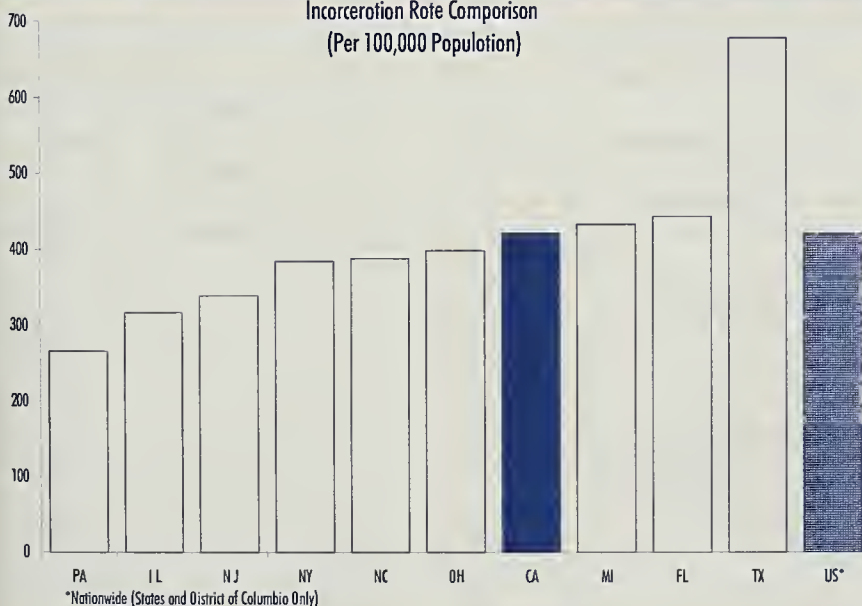
to expend approximately \$20 million in both 1996-97 and 1997-98 for a total of \$498 million in 1996-97 and \$518 million in 1997-98, an overall increase of 4 percent.

For fiscal year 1997-98, it is estimated that California will receive approximately \$299 million in SCAAP funding. This amount does not provide for an additional \$233 million in costs which Youth and Adult Correctional Agency departments will incur for incarceration, parole supervision and related debt service costs relative to this population. Given the current crowding conditions in the state's penal systems, the Administration will continue to strongly support full funding from the federal government for future years' SCAAP funding.

DEPARTMENT OF CORRECTIONS

FIGURE PUB-3

Incarceration Rate Comparison (Per 100,000 Population)



*Nationwide (States and District of Columbia Only)

The Department of Corrections (CDC) is responsible for the incarceration of convicted felons and for the supervision of these felons after their release on parole. The CDC is committed to providing safe and secure detention facilities which protect society from further criminal activities, and to providing necessary support services to inmates, including feeding, clothing, academic and vocational training, and medical care.

In 1987, California housed approximately 65,000 prison inmates. By June 30, 1997, that number will grow to almost 151,000. The parole population has also increased in the last ten years from approximately 36,800 in 1987 to more than 103,000 projected by June 30, 1997, (see Figure PUB-2).

The CDC's inmate population is projected to increase from 150,970 on June 30, 1997, to 159,823 by June 30, 1998, an increase of 8,853 inmates, or 5.9 percent. The Governor's Budget proposes \$3.8 billion and 42,429 personnel years for state operations and local assistance programs to accommodate these expanding populations. This is an increase of \$208 million and 2,166 personnel years over the revised 1996-97 Budget and includes funding to activate one new institution (Corcoran II State Prison) and complete 10,677 emergency beds system-wide. The parole population is projected to increase from 103,382 on June 30, 1997, to 109,282 on June 30, 1998, an increase of 5,900 parolees, or 5.7 percent. In 1997-98, incarceration and parole services will be provided through 33 institutions, 13 reception centers, 38 camps, and 53 community correctional facilities with housing crowding capacity of 132,623.

Notwithstanding the growth in the size of these programs, it should be noted that for calendar year 1995, California had an incarceration rate of 421 per 100,000 population, compared to a nationwide rate of 419 inmates, ranking it 13th among the 50 states and the District of Columbia (see Figure PUB-3). Although California has the largest inmate population in the United States, on a per-inmate basis California's institutions are operated with fewer uniformed staff than most other states. Adequate funding for state prison operations ensures the safety of not only the public, but also the officers who supervise confined criminals, and is vital to the safety of the public, staff, and inmates.

Special Education Program. The Administration is preparing a plan for submission to the Legislature by April 1997 which will deal with the

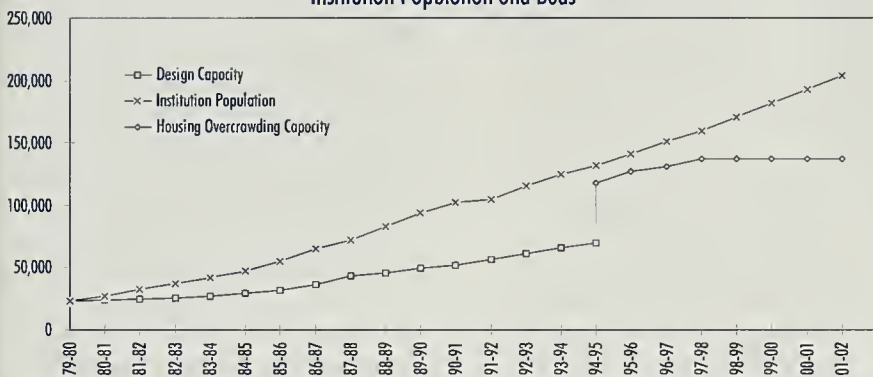
FIGURE PUB-4

Department of Corrections New Prison Bed Construction Projects

Major Projects	Design	Housing	Construction	Initial
	Bed Capacity	Capacity (HOC)	Start	Occupancy
NEW PRISONS-COMPLETED:				
Mule Creek State Prison	1,700	3,165	January 1985	June 1987
Richard J. Donovan Correctional Facility at Rock Mountain	2,200	4,102	May 1985	July 1987
Northern California Women's Facility	400	743	November 1985	July 1987
Avenal State Prison	2,320	4,570	December 1985	January 1987
CSP-Kings County at Carcoron	2,916	5,072	September 1986	February 1988
Pelican Bay State Prison	2,280	3,683	March 1987	December 1989
Chuckawalla Valley State Prison	1,538	3,008	May 1987	December 1988
Central California Women's Facility	2,000	3,479	October 1988	October 1990
Wasco State Prison-Reception Center	2,484	4,448	May 1989	February 1991
Calipatria State Prison	2,208	3,778	March 1990	January 1992
North Kern State Prison	2,492	4,464	February 1990	October 1993
CSP-Los Angeles County	2,200	3,950	October 1990	February 1993
Centinela State Prison	2,208	4,158	July 1991	October 1993
Ironwood State Prison	2,400	4,550	January 1992	February 1994
Pleasant Valley State Prison	2,208	4,158	July 1992	November 1994
High Desert State Prison	2,224	4,196	March 1993	August 1995
Valley State Prison for Women	1,984	3,454	June 1993	May 1995
Solinos Valley State Prison	2,224	4,196	April 1994	May 1996
Subtotal	37,986	69,174		
MAJOR EXPANSIONS-COMPLETED:				
California Men's Colony-West, Renovation	900	1,350	1983	June 1984
Southern Maximum Security Complex	1,000	1,799	June 1983	October 1985
CSP-Solono County	2,110	4,050	January 1984	August 1984
CSP-Sacramento County at Folsom	1,728	3,181	April 1985	October 1986
Three 500-Bed Additions	1,500	2,750	November 1985	August 1986
California Institution for Women, Special Housing Unit	100	173	October 1986	June 1987
Subtotal	7,338	13,303		
OTHER PROJECTS-COMPLETED:				
Camps	1,370	1,370	Various	June 1984
Modular Housing Units	1,000	1,700	Various	June 1984
Subtotal	2,370	3,070		
OTHER AUTHORIZED PROJECTS:				
California Substance Abuse Treatment Facility and State Prison at Carcoran II	3,424	6,013	April 1995	August 1997
Emergency Beds	2,400	4,800	October 1995	August 1996
Subtotal	5,824	10,813		
GRAND TOTAL	53,518	96,360		

FIGURE PUB-5

Department of Corrections Institution Population and Beds



Design bed capacity represents the capacity of authorized institutions and comps as measured by one inmate per cell and single bunks in dormitories.

Housing overcrowding capacity (HOC) represents the capacity of authorized institutions and comps as measured by two inmates per cell and double bunks in dormitories.

To house inmates exceeding the HOC, dayrooms and gymnasiums are converted to temporary dormitories, inmates are housed in community-based facilities under contracts with local government and private vendors, and emergency beds are utilized. All of these options will be exhausted by January 2000.

All numbers represent totals as of June 30 of each fiscal year.

delivery of special education services to inmates, as appropriate. Concurrently, consistent with a legislative request, the Administration will continue its efforts to seek changes to federal law to exempt adult correctional facilities from the Individuals with Disabilities Education Act.

Sexually Violent Predators. Chapter 763, Statutes of 1995 provides for the civil commitment of an individual who has been convicted of a sexually violent offense against two or more victims, and is determined through the court system to be a danger to the health and safety of others due to a mental disorder. Under this program, CDC is required to screen, track, and refer potential Sexually Violent Predators (SVPs) to the Department of Mental Health (DMH) for clinical evaluation and possible referral to the appropriate county of commitment, prior to release of the individual on parole.

This Budget reflects continuation of the base funding level of \$3.5 million in 1997-98 for Chapter 763. (refer to the discussion of DMH in the Health and Welfare section for further information regarding this program.)

Correctional Management

Information System. The 1997-98 Governor's Budget does not reflect any changes in funding for the development of a single automated offender information system which will also serve as the hardware and software platform for future information systems. However, the project schedule for the Correctional Management Information System (CMIS) has been delayed. The CDC is working closely with the vendor to evaluate the project status and determine what adjustments to the program and funding may be appropriate. Project revisions and timelines based on this evaluation will be

submitted to the Legislature in the spring of 1997.

Corcoran II-Substance Abuse

Treatment Facility. Implementation of the nation's largest single Substance Abuse Treatment Facility (SATF) in a prison setting is planned for September 1997, with the activation of 1,056 SATF beds at Corcoran II State Prison. The Budget provides \$3.7 million General Fund and \$1.4 million in Federal Crime Bill funds to contract with two vendors to allow for a comparison of different program approaches. This activation represents a 230 percent increase systemwide in the number of SATF prison beds.

Disability Placement Plan. Included is \$1.9 million General Fund to address reasonable accommodations for disabled inmates in state correctional programs. In the case of *Armstrong v. Wilson*, plaintiffs are requesting structural modifications, equipment acquisition, and program changes. CDC has agreed to formally resolve substantive issues in exchange for expedited action by the district court to forward an appeal to the United States Supreme Court on the issue of applicability of the Americans with Disabilities Act to the state prison system.

New Prison Construction Reorganization. An increase of \$5.6 million General Fund is proposed to replace declining bond funds to continue support for the State's prison construction program. These funds will be used to complete and close out bond funded projects and to implement proposed multi-funded prison construction activities. (see the Capital Outlay and Public Safety/Federal Crime Bill sections for further information regarding this program.)

PRISON CONSTRUCTION

Over the last three years, more than 200 laws were enacted that increase sentences for violent crimes and dangerous, repeat felons. Prison populations have been steadily rising at a time when construction of all previously approved new prison capacity will soon be completed. With all available prison capacity in use by January 2000—and with prison populations still growing—California risks court intervention in the prison system and the ordered release of felons due to overcrowding conditions. This would place the public at risk.

California has engaged in an aggressive prison construction program for the past 15 years. Additional capacity for 85,500 inmates has been added. During this time, 13 conservation camps were constructed and 3 existing camps expanded. Two major construction programs are in progress: the California Substance Abuse Treatment Facility and State Prison at Corcoran II; and the Emergency Bed Program, see Figure PUB-4 for a list of all new prison projects.

Despite these efforts, housing capacity lags behind population growth, forcing the conversion of prison dayrooms and gymnasiums into temporary dormitories. By January 2000, CDC will be out of bed capacity. By June 2002, the State's adult correctional system will have more than 204,000 felons, see Figure PUB-5.

When all capacity is used, the State will still be required to accept felons for incarceration in accordance with current law. Inmates will be housed in triple bunks, including in dormitory housing units, and converted gymnasiums. Higher-risk felons will have to be placed in lower-security housing.

However, operating the prison system at prolonged, extreme levels of overcrowding presents dangers both to the public and correctional employees. It also taxes the prisons themselves—especially the older prisons—accelerating the need for repair and maintenance. And finally, when the courts deem that prison conditions represent an unreasonable health and safety threat to inmates, they can—and have, in other states—order the early release of felons. The deterrent value of stiffer crime sentences will be lost.

It takes three years before a new prison can be built and receive inmates (even considering that California has developed a "fast-track" method of prison construction that allows it to construct prisons faster than many other states). The conclusion is that the capacity problem facing the State in the year 2000 must be addressed now.

Therefore, the Administration is proposing a 1997 Prison Construction Program funded in large part by federal grant funds (\$265.4 million capital outlay) authorized by the 1994 Federal Crime Bill. From these funds, the Budget proposes \$40.5 million for the design of three new prisons: Delano II, Kern County; California City, Kern County; and San Diego, San Diego County. In addition, these funds will provide environmental studies for three additional prison locations: Taft, Kern County; Sacramento, Sacramento County; and Solano County.

An additional \$9.6 million is included from the General Fund for the required state match for the program and for land acquisition (a federally ineligible program cost) needed to complete the full design at the first three locations.

The 1997-98 Governor's Budget also authorizes \$249.9 million in lease-revenue bonds for construction costs for Delano II. However, proposed Budget Act language requires that this amount be offset by anticipated federal receipts, leaving lease-revenue funding only for those project construction costs that exceed grant funds available to CDC. The Budget projects that \$224.9 million in federal funds will be available to CDC for capital outlay during the construction of this project, with a state match requirement through lease-revenue bonds of only \$25 million (estimated).

The Administration's proposal for use of Federal Crime Bill funds provides several significant benefits to California. First, it allows work to begin immediately on six projects needed to provide housing between fiscal years 2000 and 2002. The lease-revenue bond authority enables work to commence on an expedited project schedule, prior to receipt of the federal grant. With this approach, Delano II can be activated within three years. The proposed approach guards against any federal interpretation of supplantation by clearly stipulating that the lease-revenue authority is only a bridge until federal funds—which are provided as reimbursements rather than advances—are received. Finally, the State will construct a prison with capacity for 4,900 inmates while providing only about 11 percent of the project funding from state revenues.

However, the Delano II project is only one step towards meeting the bed need between 2000 and 2002. The Administration is also proposing legislation to authorize lease-revenue financing for the construction of the California City and San Diego prisons. Additionally, funding for the design and construction of the three

projects (those for which environmental studies are included in the Governor's Budget) will be proposed in 1998.

The 1997-98 Governor's Budget also provides \$28.2 million from the General Fund and \$31.3 million in lease-revenue bond authority from the Public Building Construction Fund for critical major and minor capital outlay projects. These projects include improvements in health and mental care facilities, repairs to overburdened infrastructure and program facilities, and projects related to the access requirements of the Americans with Disabilities Act. A number of these projects are also needed to comply with or avoid court or regulatory agency orders. Where appropriate, lease-revenue bond funds are recommended for these projects, reflecting the need to balance infrastructure needs with the many demands on the General Fund.

BOARD OF CORRECTIONS

The Board of Corrections is responsible for establishing standards for the construction and operation of local jails and juvenile detention facilities, compliance inspections, and employment standards and training for local corrections and probation personnel.

Federal Crime Bill Funding. Given the accelerating number of violent offenders and the public safety risks due to lack of local jail space, the Administration is proposing allocation of 15 percent of the state's Violent Offender Incarceration and Truth in Sentencing grants to build and/or expand local adult and juvenile detention facilities. The Board of Corrections will be responsible for awarding these local funds and for assisting counties in planning, designing, and constructing facilities in

ways that promote economy, quality, efficiency, and the highest degree of safety for the public and staff as well as the individuals who are detained in these facilities. (Please see the Capital Outlay and Public Safety/Federal Crime Bill sections for further information regarding this program.)

DEPARTMENT OF THE YOUTH AUTHORITY

The Youth Authority operates 11 institutions, including 2 reception center/clinics, 6 conservation camps (2 of which are institution-based camps), and 2 institution-to-parole transition programs (1 of which is a drug treatment program). The total institution and contract design capacity of the Youth Authority is 6,762 beds. The Department projects these facilities will house 9,425 youthful offenders by June 30, 1997. Although the number of wards committed to the Youth Authority is expected to continue increasing, Chapter 195, Statutes of 1996 provides that M-Cases (Department of Corrections (CDC) inmates who have been housed at the Youth Authority) may generally be transferred from the Youth Authority to CDC after their eighteenth birthday. As a result, population is increasing more slowly than previously anticipated. Approximately 1,260 M-Cases are expected to be transferred to CDC during 1996-97 which has the effect of immediately reducing overall ward crowding. Despite the transfers, population is expected to increase by 120 for a 1997-98 year-end population of 9,545.

The Youth Authority supervises parolees through 16 offices located throughout the State. The Parole population is projected to be 6,205 by June 30, 1997, and to decrease by 55 cases, or 1 percent, to 6,150 by June 30, 1998.

County Payment Reimbursements/Sliding Scale. Historically, the Youth Authority has charged counties \$25 per month for wards committed to its custody by counties. Chapter 6, Statutes of 1996 increases this fee to \$150 per month effective January 1, 1997. In addition, the chapter established a new sliding scale fee to be charged for less serious offenders committed to the Youth Authority by counties. This is intended to provide an incentive for counties to establish local alternatives for housing these less serious offenders. The amount paid by counties is a percentage of the Youth Authority's per capita housing cost, and is based on a sliding scale which takes into consideration the seriousness of the committing offense. The sliding scale fee is paid in lieu of the \$150 per month. In accordance with the changes made by the chapter, the Youth Authority's budget includes \$12 million in reimbursements in 1996-97, thus offsetting the need for a like amount of General Fund resources. It is anticipated that another \$34.7 million in 1997-98 will be collected for total reimbursements of \$46.7 million.

Electronic Monitoring. The Governor's Budget includes \$175,000 to establish a new electronic monitoring program for high-risk parolees. Under this program, electronic monitors will be used to increase the ability of parole agents to maintain knowledge of the whereabouts of high-risk parolees. This program will enhance public safety by increasing the level of accountability expected of these parolees and providing parole agents with an additional tool for ensuring appropriate conduct.

Specialized Counseling Programs. For 1996-97, \$1 million was provided to the Youth Authority for implementation of additional ward programming. The Governor's

Budget includes \$1 million for the continuation of the new specialized counseling programs at Ventura School and Heman G. Stark Youth Training School. These programs will ensure the Youth Authority has the resources to effectively treat those wards who exhibit severe behavioral and/or psychological problems. Providing appropriate treatment in a timely fashion could reduce the overall length of stay for wards requiring specialized treatment.

Parenting Programs. Resources are provided in 1996-97 for expansion of the Young Men as Fathers and Preparing for Positive Parenting Programs to additional Youth Authority facilities. The 1997-98 Governor's Budget includes \$175,000 and three personnel years to allow these valuable programs to be established at the remaining Youth Authority facilities. The programs focus on

increasing the parenting knowledge and skills of wards and parolees who are fathers, and teaching these young men to be responsible parents by participating in the emotional and financial support of their children, thereby reducing the burden on society for their children's support.

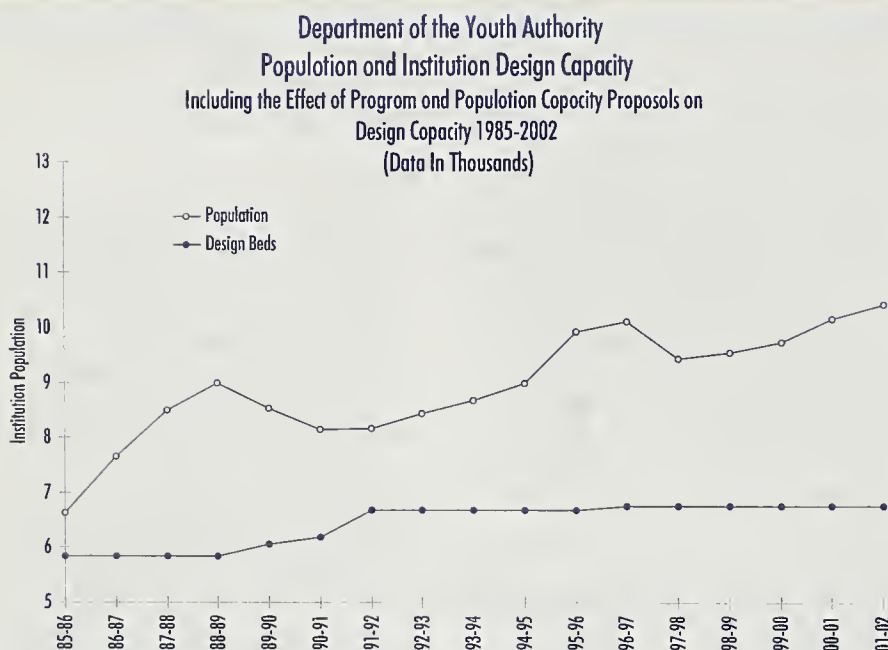
Security Improvements. In response to recent incidents on the grounds of Youth Authority institutions, funding is provided in the Governor's Budget for a number of security enhancements:

- ◆ \$900,000 is included in 1996-97 for a personnel tracking system at all institutions. This system will provide a mechanism whereby the entrance and exit of staff may be monitored.
- ◆ An additional \$1.4 million in 1997-98 to provide relief coverage for Senior Youth Counselors

and Senior Group Supervisors on their regular days off at all institutions. Currently, there is no relief coverage for these critical supervisory positions.

- ◆ An increase of \$73,000 in 1997-98 to provide an additional perimeter patrol at the Heman G. Stark Youth Training School. This is a stop-gap measure intended to enhance security prior to the construction of a second perimeter fence.
- ◆ An increase of \$257,000 in 1997-98 to establish five canine teams at the Heman G. Stark Youth Training School. This involves purchasing and training canines and training existing staff to be canine handlers. The canine teams will be used to conduct searches, assist in locating escapees, and provide staff assistance during adverse situations.

FIGURE PUB-6



NOTE: "Beds" represent the institutional design capacity of authorized institutions and camps as of June 30 for each fiscal year. Projected population reflects all approved "bed-saving" alternative programs.

Facility Construction

The California Department of the Youth Authority (CYA) faces a need for additional institutional bed capacity based on current crowding as well as on a projected increase in the number of serious violent offenders. Between 1996-97 and 1997-98, CYA's population drops as M-Cases—youthful offenders tried as adults—are redirected to the adult correctional system. By 2000-2001, the population climbs back to 1996-97 levels. (See Figure PUB-6.)

CYA is currently crowded at 137 percent of design bed capacity (December 1996) affecting program delivery and aggravating the potential for violence against other wards and staff. The projected decline in population will mitigate this crowding temporarily, but the institutions will

be back at 150 percent crowding by about 2001.

CYA reports that the crowding at which it can operate safely and effectively is 130 percent of design bed capacity. At no time between 1997-98 and 2001-02 will the state juvenile system be below about 140 percent of design bed capacity.

Therefore, the 1997-98 Governor's Budget includes \$27.6 million (Capital Outlay) in Federal Crime Bill grant funds, together with a state match of \$3.1 million from the General Fund, to add 350 new rooms at existing facilities statewide.

In response to the increasingly violent nature of the offenses of YA wards and to the recent murder of a youth counselor on the grounds of a CYA institution, the following security enhancements are proposed as critically urgent capital outlay projects:

- ◆ \$3.9 million to construct four new security fences at Preston, Heman G. Stark, Ventura and El Paso de Robles Schools. The new fences will help deter ward escapes by completely enclosing the facilities with a 12-foot chain link fence with anti-climb material, razor ribbon and motion detectors.
- ◆ \$1.1 million to complete the upgrade of the personal alarm system at the Southern Reception Center which will be used as the prototype for the statewide personal alarm system upgrade. The Budget also provides \$990,000 for the design of the statewide personal alarm system.
- ◆ Other projects related to security include the replacement of living unit doors (\$378,000), security window screens (\$550,000), and the upgrade of security locks

(\$1.1 million) at Heman G. Stark School. Also included are living unit security upgrades at N. A. Chaderjian School (\$983,000).

In addition, the 1997-98 Governor's Budget recommends \$8.3 million in new lease-revenue bond authority for projects including a new boiler plant at Preston School, and infirmary in El Paso de Robles School, and a new maintenance building at Fred C. Nelles School. The Budget also includes approximately \$4.9 million from the General Fund for Free Venture work space, various infrastructure projects, and minor capital outlay projects.

DEPARTMENT OF JUSTICE

The constitutional Office of the Attorney General serves as the State's primary legal representative and chief law enforcement officer, and is responsible for ensuring that California's laws are uniformly enforced.

For 1997-98, the Governor's Budget proposes 4,362 personnel years and \$386.6 million for the Department of Justice (DOJ), which includes \$172.3 million for the Division of Law Enforcement, \$184.2 million for the Legal Services Programs, and \$30.1 million for the O.J. Hawkins Data Center. The following major budget adjustments are proposed for 1997-98:

Foreign Prosecution Program Expansion. An increase of \$321,000 General Fund and three personnel years to expand the Foreign Prosecutions Program. The Foreign Prosecution Program is a cooperative effort between California and Mexico to apprehend and prosecute Mexican nationals who have committed violent crimes in California and have fled to Mexico. Once apprehended, these

fugitives are prosecuted and incarcerated in Mexico. United States citizens who have committed violent crimes in California and flee to Mexico who are then apprehended by the Foreign Prosecution Program are extradited back to California for prosecution and subsequent incarceration.

Indian Gaming. An increase of \$281,000 General Fund and three personnel years for workload related to Indian gaming. Federal law requires a compact between Indian tribes and a state that authorizes Indian tribes to operate gaming clubs on their reservations. California is in the process of negotiating a model compact for gaming on Indian reservations which could lead to subsequent compact negotiations beginning in 1997-98 with all California Indian Tribes that desire to conduct gaming on their reservation. Additionally, increased resources are needed to address litigation related to Indian gaming issues in California.

Solving Old Homicide Cases. An increase of \$266,000 General Fund and three personnel years to establish a team to investigate and attempt to solve old homicide cases. In order to investigate and attempt to solve these cases, the team will utilize modern technology and databases including DNA analysis, laser-assisted development of latent fingerprints, and automated equipment for examination of firearms evidence.

Imperial County Border Interdiction. An increase of \$725,000 General Fund and six personnel years to establish an Imperial County Border Interdiction Team. Because of law enforcement efforts to curb drug trafficking in San Diego County, Imperial County has become a major drug trafficking area. This team will work in conjunction with the Imperial County Regional Narcotics Task

Force to intercept drugs being smuggled into California.

Terrorism Investigation Program. An increase of \$82,000 General Fund and two personnel years for terrorism investigation. Additional resources are proposed to gather intelligence information related to potential terrorist groups, domestic militia and militia-like groups, and criminal extremist groups in California.

Retention of Misdemeanor Driving Under the Influence Records. An increase of \$1.4 million Special Funds and 38 personnel years to retain information on individuals arrested for misdemeanor driving under the influence (DUI) and to fingerprint those arrested on this charge for purposes of positive identification.

"Megan's Law." An increase of \$255,000 and two personnel years to implement the provisions of Chapter 908, Statutes of 1996. This legislation implemented California's version of the federal "Megan's Law," which requires information regarding sex offenders to be released to the public by the Department of Justice on a CD-ROM or other electronic media. It is estimated that 57,000 sex offenders will meet the requirements specified in the legislation for inclusion in the CD-ROM.

Proposition 209. An increase of \$361,000 and five personnel years to address litigation related to Proposition 209. Proposition 209, approved by the California voters on November 5, 1996 adds Section 31 to Article I of the California Constitution. Proposition 209 requires that the state shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or

public contracting. It is anticipated that this initiative will result in a significant amount of litigation.

OFFICE OF CRIMINAL JUSTICE PLANNING

The Office of Criminal Justice Planning (OCJP) seeks to improve the criminal justice system in California through providing financial and technical assistance to state and local governments, education and training to California citizens, and technical and research support to the Administration.

For fiscal year, 1997-98, the Governor's Budget proposes 124 personnel years and \$158.1 million for OCJP to continue the Administration's efforts to enhance victim services programs, improve the criminal justice system, and reduce crime in California. The budget includes funding to implement the following major programs.

Medical Evidentiary Training. The Governor's Budget includes \$705,000 General Fund to establish the second hospital-based training center authorized by Chapter 860, Statutes of 1995 (SB 857). This training center will instruct medical personnel on how to evaluate, collect, and document examination results from examinations of victims of physical abuse, sexual abuse, and domestic violence, and will train investigative and court personnel on how to interpret the findings of those medical examinations. It is anticipated that improved medical documentation and interpretation will aid in the prosecution of sexual and physical abuse cases.

Violence Against Women Act. The Governor's Budget includes \$10.7 million federal funds and five personnel years for the development

and implementation of effective law enforcement and prosecution strategies to combat violent crimes against women and to provide services to women who are victims of violent crimes. Specifically, funding will be used for: (1) training of local law enforcement officers regarding specialized response and investigation procedures in domestic violence, elder abuse, and sexual assault cases; (2) training of prosecution attorneys on successful domestic violence/sexual assault prosecution strategies and establishment or expansion of specialized prosecution units to handle these types of cases; (3) support of non-profit and non-government victim services programs such as rape crisis centers, shelters for battered women and their children, and other victim services, and; (4) support of various objectives such as establishment of multi-disciplinary response teams to provide immediate and follow-up medical care and services to sexual assault and domestic violence victims.

COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

The Commission on Peace Officer Standards and Training is responsible for raising the level of competence of law enforcement officers in California by establishing minimum selection and training standards, improving management practices and providing financial assistance to local agencies relating to the training of their law enforcement officers. For fiscal year, 1997-98, the Governor's Budget proposes \$41.4 million and 114 personnel years to support these objectives.

Tools for Tolerance. The 1997-98 budget includes \$2 million for training law enforcement officers on cultural diversity and tolerance

issues at the Simon Wiesenthal Center, Museum of Tolerance in Los Angeles. It is anticipated that this funding, which was initially provided in the fiscal year, 1996-97, will provide training opportunities to approximately 7,000 local law enforcement officers throughout the State.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol (CHP) is the largest highway patrol in the United States and is recognized for its leadership on public safety issues. For 1997-98, the Governor's Budget proposes expenditures of \$851 million and 9,966 personnel years for support of the CHP, an increase of 7.3 percent and 2.4 percent, respectively, above the 1996-97 levels.

The mission of the CHP is to protect the lives and property of motorists and to ensure the safe and efficient flow of traffic on the State's highway system. The Department's major priorities are the enforcement of traffic speed laws, elimination of driving-under-the-influence of drugs and alcohol, promoting the use of seat belts by motorists, providing for the safe and efficient regulation of commercial vehicles (primarily trucks, semi-trailers, and buses), traffic congestion relief, vehicle theft reduction, safe transportation of hazardous materials, and stopping the flow of drugs through the State. More than 98,000 miles of California's highways, nearly two-thirds of all roads in the State, are within the CHP's jurisdiction.

Vehicle Theft. In 1995-96, the Salvage Vehicle Inspection Program was implemented in an effort to deter auto thieves from legitimizing stolen vehicles and parts through the vehicle registration process. This program required the CHP to inspect

certain types of salvage vehicles and accompanying paperwork to determine whether parts used in the rebuilding of the vehicle were legitimate salvaged parts, not stolen ones. Due to limited resources, the program was only operational for three months in the fiscal year, 1995-96. Chapter 684, Statutes of 1995 (SB 549), placed a moratorium on the implementation of this program until January 1, 1997, so that it could be restructured to cost less. Chapter 450, Statutes of 1996 (SB 1713), re-established the Salvaged Vehicle Inspection Program on a random inspection basis, as opposed to the mandatory inspection required by previous law. The Governor's Budget proposes \$1.2 million and 15.2 personnel years to re-establish this program on a smaller and more targeted scale.

Motor Carrier Permit Program. As a result of federal legislation, the State is no longer able to regulate rates, routes and conditions of service for intrastate motor carriers previously under the authority of the Public Utilities Commission. The Governor's Budget proposes \$1.4 million and 19 personnel years to enforce the provisions of Chapter 1042, Statutes of 1996, which transfer the remaining regulatory responsibilities for motor carrier safety, maintaining records of insurance coverage for liability and workers compensation, and for registering carrier fleets from the Public Utilities Commission to the CHP and the Department of Motor Vehicles. Under this legislation, the CHP would enforce vehicle safety requirements and ensure that motor carriers maintain a valid operating permit to conduct business within the State.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

Established in 1991, the California Environmental Protection Agency (CalEPA) is responsible for safeguarding the environment with regulations that are understandable, enforceable, and uniform. As a result of CalEPA's efforts, improvements are occurring in many areas, including:

- ◆ During 1996, California's Environmental Technology Certification Program certified nearly 50 technologies, undertook reciprocal efforts with numerous other states and nations, and was recognized by Harvard University's "Innovations in Government" and Vice President Al Gore's "Hammer" awards. This path-breaking program is accelerating the research, development, capitalization, and sale of critical environmental technologies, advancing both economic and environmental progress.
- ◆ The Air Resources Board's successful introduction of the world's cleanest burning gasoline immediately reduced vehicle emissions by 300 tons per day, including a 40 percent reduction in airborne toxic chemicals. These substantial reductions in emissions are equivalent to the pollution

generated by 3.5 million automobiles and are a cornerstone of California's landmark clean air plan.

- ◆ In order to expand the amount of capital available to help businesses transform recyclable material into new products, the Integrated Waste Management Board sold more than \$6 million in outstanding loans to a financial group and used the proceeds to fund additional loans. The program has loaned more than \$18 million to nearly 50 California recycled products companies, creating nearly 600 jobs and diverting 1.4 million tons of waste from the State's landfills.
- ◆ The success of CalEPA's Permit Assistance Centers (PACs) during the last four years led to requests by numerous communities to expand the network. New centers were opened in Alameda County, Sonoma County, and South Orange County, bringing the total number of PACs to 13.
- ◆ Using innovative reforms secured through recent legislation and regulation, the Department of Toxic Substances Control has worked with responsible parties to

advance the cleanup of 123 hazardous waste sites. Among the sites certified as clean and ready for reuse are the former Kaiser Steel Mill in Fontana, which will become a racetrack, and the Golden Eagle Refinery in Carson, which will become a shopping mall.

- ◆ The Office of Environmental Health Hazard Assessment's risk assessment method has been reviewed by a prestigious scientific panel. Their recommendations for improved techniques are in the process of being implemented to produce a clear understanding of the risks to public health and the environment from chemicals used in California.

CalEPA's key goals during 1997-98 will be to:

- ◆ Administer the Federal Clean Water Act, the Clean Air Act, and the Superfund programs so as to eliminate duplication, affix accountability, and better protect California's environment.
- ◆ Expand technology certification across all CalEPA programs.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

- ◆ Make continued progress in air quality with the State Implementation Plan in areas ranging from the world's cleanest burning gasoline to the introduction of low/zero emission vehicles and a responsible plan to reduce airborne fine particulate matter.
- ◆ Continue progress on the historic protection of water quality in the Sacramento-San Joaquin Delta and San Francisco Bay.
- ◆ Implement the Administration's Watershed Initiative by examining the particular needs of each of the State's watersheds on a priority basis and by developing appropriate strategies to protect these foundation blocks of California's environment in coordination with various federal, state, and local agencies. All participants will maximize environmental benefits through the coordinated use of funding available to each agency.
- ◆ Implement the Administration's Coastal Initiative to protect the resources and the quality of California's coastal waters. Implementation will identify the sources, location and extent of pollution, develop rigorous standards to prevent further degradation, and assess the scope of feasible remedial actions. Implementation will also focus on a long-term strategy to mitigate and manage the disposal of dredged materials.
- ◆ Implement a pilot program for permit consolidation zones authorized by Chapter 872, Statutes of 1995, to reduce the delays and conflicts historically created by the multiple permit processes of the various agencies which are involved in authorizing the construction or use of facilities in California. This pilot replaces up-front permit approvals with a compliance audit program to speed up regulatory decisions, reduce permitting costs, and ensure more effective environmental protection.
- ◆ Increase access to the services provided by the 13 PACs to assist individuals and businesses with their permitting needs. Greater accessibility to the data bases of all centers will be provided in the coming year via establishment of the Cal-GOLD System on the Internet.
- ◆ Authorize Certified Unified Program Agencies to consolidate a number of hazardous waste and materials programs now spread throughout government. The Unified Program consolidates specified permits, fees, inspections, and reporting requirements.
- ◆ Continue to monitor and ensure the safe use of pesticides in California.
- ◆ Take action to improve sound scientific review of the risks to human health and the environment from chemicals used within the State.

AIR RESOURCES BOARD

The Air Resources Board is committed to the world's foremost program to protect and improve air quality. The Board conducts research, monitors California's air quality, and sets policies for controlling emissions from motor vehicles and consumer products. The Board works in partnership with local air districts to devise strategies designed to lower pollution levels and provide a healthy environment for California's residents.

In 1997-98, the Budget reflects \$3 million in Air Pollution Control Fund savings related to the sunset of California Clean Air Act non-vehicular fees; and \$342,000 in Air Toxics Inventory and Assessment Account savings realized from the phase-down of the Air Toxics Hot Spots Program, pursuant to Chapter 602, Statutes of 1996.

For 1997-98, \$784,000 is proposed for the development and purchase of particulate matter samplers; \$470,000 is proposed to enhance the scientific and engineering capability of the Board to implement air certification requirements, pursuant to Chapter 429, Statutes of 1994, and Chapter 429, Statutes of 1996; and \$1.2 million is proposed to implement the second year of the three-year accelerated light-duty vehicle retirement program, pursuant to Chapter 929, Statutes of 1995.

INTEGRATED WASTE MANAGEMENT BOARD

The Integrated Waste Management Board will continue its progress on a comprehensive program to address the State's solid waste management needs. The Board's programs and policies combine landfill permit oversight, operational monitoring, research, and educational efforts to reduce materials going to landfills. The Board's programs have assisted local agencies in attaining the 25 percent mandated diversion goal and they are well on their way to meeting the 50 percent required diversion goal by the year 2000.

Used automotive tires present a major public health and safety risk in California. The Board has developed a two-fold plan to eliminate current unsafe stockpiles and prevent future accumulations through market-driven opportunities to reuse



worn-out tires. In 1997-98, the Board plans an expansion of \$5.4 million from the California Tire Recycling Management Fund. The Board will use this fund to continue its plan to eliminate illegal and unsafe waste tire storage through permitting of tire haulers and sites, remediation of unsafe sites, and increasing the recycling of the 29 million used tires generated each year. Diverting waste tires from the annual flow is the best strategy for preventing the escalation of future environmental harm.

As a direct result of the Board's success in reducing waste generation, revenues will be reduced in the Integrated Waste Management Account by an estimated \$5 million. Therefore, the Board's expenditures will be adjusted to a level consistent with anticipated revenues. The Board will be determining the reallocation of its resources to effectively support the 50 percent diversion goal while protecting public health, safety, and the environment.

DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation maintains the foremost pesticide protection program in the United States. The Department has the primary responsibility for regulating all aspects of pesticide sales and use. The Department's mission is to evaluate and mitigate impacts of pesticide use, maintain the safety of the workplace, ensure product effectiveness, and encourage the development and use of reduced-risk pest control practices while recognizing the need for pest management in a healthy economy.

The Department's programs provide the residents of California a high level of assurance of the safe use of

pesticides by working to supplement the efforts of the basic federal pesticide program. The Department will continue to harmonize its programs with those of the federal government. This coordination will prevent duplication of effort and speed the introduction of reduced-risk pest management techniques.

Highlights for 1997-98 include an additional \$1 million from the Pesticide Regulation Fund to increase the Department's Pest Management Grants Program. These funds will be used for competitive grants to develop and implement programs to reduce risks that may be posed by existing pesticides and practices. Moreover, the Department will increase its scrutiny of the unintended impacts of low levels of pesticide drift onto adjacent areas.

STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board will continue to carry out its responsibility for maintaining water quality and water allocations in the State. The Board accomplishes this through planning, research, and monitoring programs, as well as regulatory oversight for the State's surface, ground, and coastal waters.

In 1997-98, the Board will continue its vital role to ensure that adequate water is provided to meet the long-term needs of a healthy and environmentally secure Sacramento-San Joaquin Delta Estuary and the San Francisco Bay. Moreover, the Board will put special emphasis on the Governor's Coastal and Watershed Initiatives to ensure that a comprehensive and coordinated approach is undertaken to protect the full range of California's natural bounty. The Board will perform an estimated 3,400 compliance inspections of

permitted facilities, and issue or update 480 waste discharge permits. The Board plans to issue 65 water rights permits and adopt 7 major water rights orders in the coming year. In issuing permits, the Board determines the amounts, conditions, and timetables for diversions and storage.

Other highlights for 1997-98 include a \$7.5 million General Fund augmentation—which will both partially restore funding that was reduced in prior years and replace funding from sources that will no longer be available after 1996-97—for the Core Regulatory Programs, in order to maintain California's high environmental standards and meet the needs of the regulated community. Proposition 204, approved by the voters of California on November 5, 1996, provides \$225 million for the State Revolving Fund Loan Program, Small Community Grants Program, Water Recycling Program, Seawater Intrusion Control Program, Drainage Management Program, and Delta Tributary Watershed Program. This will provide funding to local water treatment and water reclamation facilities for the expansion of existing sewer plants to meet a growing volume of wastewater, to build additional sewer facilities to serve new developments, and to upgrade existing facilities to meet federal Clean Water Act secondary treatment standards.

Leaking underground storage tanks have created environmental degradation to the State's underground waters. The Board will work to ensure that all underground tanks will be replaced or upgraded by December 22, 1998. In addition, an \$80 million augmentation from the Underground Storage Tank Cleanup Fund is proposed to reimburse tank owners who submit claims for cleanup, and an additional

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

\$10.6 million from the Underground Storage Tank Cleanup Fund is included to implement the Thompson-Richter Underground Storage Tank Reform Act, as mandated by Chapter 611, Statutes of 1996, for cleanup activities associated with commingled plumes from leaking underground storage tank sites. Also included is a \$350,000 contract (Renewable Resources Investment Fund) for the second year of implementing the Bay-Delta Water Quality Standards Control Plan. The Board is also providing \$4.5 million (\$3million-Waste Discharge Permit Fund and \$1.5 million-Cleanup and Abatement Account) for the restoration of Mono Lake.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control is responsible for the prevention and remediation of environmental damage caused by hazardous substances. The Department oversees the cleanup of contaminated sites and monitors and regulates hazardous waste transportation, treatment, storage, and disposal in California. The Department's programs cover site mitigation, including the stabilization of clandestine drug laboratory sites; hazardous waste management; pollution prevention; waste minimization; and technology development.

In 1997-98, the Department proposes to establish an annual General Fund appropriation of \$5.9 million to fund the costs of the mandatory state match at federal National Priority List (Superfund) sites for final remedial and long-term operation and maintenance activities. Moreover, these funds will be used to carry out similar activities—in addition to investigation—at state-only "orphan"

sites where there are no responsible parties.

A total of \$5.8 million (General Fund) is included for clandestine drug laboratory removal activities in 1997-98. This includes a funding shift of \$2.7 million from the Hazardous Waste Control Account (HWCA) to the General Fund, recognizing that the General Fund is a more appropriate ongoing funding source for drug laboratory removal efforts.

During 1996, the Department assumed full responsibility for operation and maintenance of the Stringfellow Hazardous Waste Superfund site, primarily the water treatment plant. The Department will continue to monitor the extent of the contaminated groundwater plume and inform nearby residents of the status of the project.

The Department will continue its Regulatory Structure Update (RSU) initiative, a comprehensive review and refocusing of California's system for identifying and regulating the management of hazardous waste. The initiative includes an evaluation of all aspects of California's hazardous waste regulatory program, which differs from the federal Resource Conservation and Recovery Act. The goal of the RSU is to reduce regulatory burdens while retaining high enforcement and management standards needed to protect public health and the environment.

The Department will continue to operate the Railroad Accident Prevention and Immediate Deployment (RAPID) Program in 1997-98. Remaining RAPID funding of \$535,000 will be used to support the State's RAPID response capabilities and to respond to the most critical incidents. Reimbursements will be sought for costs associated with

departmental response to individual incidents.

Over the last several years, the Department's efforts have led to a dramatic reduction in hazardous waste generation. One consequence of this is a reduction in departmental revenues. The Department will reduce expenditures consistent with performing the highest priority work. As a result, HWCA expenditure reductions of \$1.4 million (18.5 positions) in 1997-98 are proposed, including a \$300,000 reduction to the Office of Environmental Health Hazard Assessment.

Chapter 638, Statutes of 1995, established a Fee Reform Task Force responsible for reviewing the existing hazardous waste fee structure and recommending a proposed new funding system for the Department. The Task Force's report is expected to be released in January 1997. It will address appropriate ongoing funding sources for the activities discussed above as part of overall recommendations for a more predictable and accountable funding system in which funding sources are based on a determination of who benefits from the supported activities.

OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

The Office of Environmental Health Hazard Assessment protects and enhances public health and the environment through the objective, scientific evaluation of risks posed by hazardous substances. The Office commissioned a review of its procedures by a nationally recognized scientific panel during 1996. The recommendations of this panel will be implemented pursuant to directives in the Governor's Executive Order W-137-96. The Office will provide the scientific tools and



information upon which to base risk management decisions for various programs under CalEPA as well as other state and local agencies. Distinct programs within the Office focus on assessing the health risks from exposures to chemicals in air, water, food, consumer products, hazardous and municipal waste facilities, fish and shellfish, and sediments in bay and estuary waters.

Pursuant to Chapter 755, Statutes of 1996, an additional \$835,000 (General Fund) has been included to perform health risk assessments and to adopt public health goals for drinking water contaminants. Also, a \$200,000 increase in reimbursement authority is proposed to provide consultation to the Office of Emergency Services in conjunction with implementation of requirements related to regulated substances, pursuant to Chapter 715, Statutes of 1996 (Calderon Regulated Substances Act).

The Office will maximize its effective use of limited resources by evaluating the work of other scientific bodies to determine the need for its independent investigation on issues that may come to its attention.

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NATURAL RESOURCES

The Resources Agency is responsible for the State's policies, programs, and activities relating to the conservation, management, and enhancement of California's natural and cultural resources, including land, fish, wildlife, water, timber, and minerals. The Agency has administrative responsibility for 21 state departments, boards, commissions, and conservancies.

For 1997-98, the Resources Agency, in conjunction with the California Environmental Protection Agency, is embarking on several major resource policy initiatives designed to enhance California's natural resources and environmental quality, while streamlining environmental regulation.

Coastal Initiative. \$17.1 million and 10 personnel years (in various budgets). The purpose of this Initiative is to improve coastal stewardship in important, complimentary ways, such as through the State Coastal Conservancy's Wetlands Restoration Clearinghouse and Mitigation Bank.

Watershed Initiative. \$3.8 million and 28 personnel years (in various budgets). The primary objectives of this initiative are to: 1) streamline the existing permit processes by transitioning from the time-consuming

and costly single project analysis to a broader, community-based programmatic watershed habitat approach; 2) recover deteriorating watersheds; 3) delist threatened or endangered species; and 4) avoid future listings. The Resources Agency, working with the California Environmental Protection Agency and the participating resource management departments, is committed to working together to achieve the Initiative's objectives.

Natural Communities Conservation Planning (NCCP) Program. The NCCP Program is an innovative approach to resource management, which balances the broad habitat protection needs of listed species with the need for economic development. The Governor's Budget proposes \$13 million to support community-based grants and land acquisition and restoration efforts of the State Coastal Conservancy, the Department of Fish and Game, and the Wildlife Conservation Board.

Proposition 204. In November 1996, Californians approved a \$995 million General Obligation bond that represents a major advance in the restoration of the San Francisco Bay/Sacramento-San Joaquin Delta

Estuary and the Governor's comprehensive water policy.

The Governor's Budget reflects \$77.8 million in expenditures for 1996-97 and \$133.3 million for 1997-98 in various Resources Agency departments designated to receive the bond funds.

See "Resources and Environmental Quality" in the Budget Summary for more details on the Administration's resources and environmental policy initiatives.

DEPARTMENT OF PARKS AND RECREATION

The mission of the Department of Parks and Recreation (DPR) is to provide for the health, inspiration, and education of the people of California by helping to preserve the State's extraordinary biological diversity, protecting its most valued natural and cultural resources, and creating opportunities for high-quality outdoor recreation. The State Park System consists of 265 park units, including parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle, areas and historic sites. This park system represents the most diverse natural and

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cultural heritage holdings of any land managing agency in California, and is second to none in the United States.

Throughout California, state parks are some of the most recognizable and most widely visited destinations in the country, drawing about 70 million visitors each year. The State Park System contains 280 miles of coastline and 811 miles of lake, reservoir, and river frontage, as well as approximately 3,000 miles of trails and nearly 18,000 campsites on 1.3 million acres.

The Administration has insisted that state parks remain open and accessible to all Californians, an essential goal that has been achieved by the DPR through ingenuity, creativity, and sound stewardship. DPR's efforts have included an administrative reorganization that reduced staff in Sacramento and shifted greater resources into the field; a pilot program in performance-based budgeting that has helped cut costs and maximize badly needed financial resources; and a cooperative agreement with the National Park Service for joint management of the state and national parks in three regions of California.

Increasing the stewardship of these wonderful resources entails substantial challenges. The usage of state parks increases across the State, yet the traditional sources of revenues available to the DPR have declined markedly in recent years. For example, the General Fund made up more than 78 percent of the budget in 1980-81. In 1996-97, that portion is less than 37 percent.

The Governor's Budget proposes an expenditure level of \$209.6 million, which includes \$186 million and 2,786 personnel years for support of

state operations; and \$23.6 million for local assistance grants.

Five-Year Financial Stabilization

Plan. Facing another funding gap, last year DPR initiated a five-year plan to make state parks more financially stable through new and continuing strategies, including new fee structures, moving to the next phase of performance-based budgeting, increased privatization efforts, and wider collaboration with local governments and private nonprofit organizations in the operation and management of parks. Coupled with this strategic plan, the 1996 Budget Act provided DPR with \$16.4 million General Fund to be phased out over a five-year period. Additionally, DPR estimated a revenue increase of approximately \$3 million to help offset its funding gap. These actions allowed DPR to keep park units open while at the same time change its method of operation within state government.

In the first year of the plan (1996-97), DPR set up a number of working groups tasked with the responsibility of determining the feasibility of, and developing strategies and processes for, surplusung park properties, privatizing park units or converting park units over to another governmental entity. This effort is coupled with the establishment of an infrastructure designed to maximize revenue-generating opportunities to help the DPR achieve self-sufficiency. This includes an Office of Revenue Generation, a department-wide Revenue Oversight standing committee, completion of a state-wide marketing research effort, and a fully operational nonprofit corporation—State Park Partners.

As part of the second year (1997-98) of the five-year phase-out, DPR proposes a funding adjustment to reduce \$1 million from its current General

Fund appropriation (from \$16.4 million to \$15.4 million), and an increase in revenues by a like amount. Specifically, DPR proposes to generate the additional \$1 million in revenues by: 1) charging school group fees (\$585,000), and 2) maximizing concessions rents (\$415,000).

Performance-Based Budgeting. In 1993, the Administration established performance-based budgeting pilot projects in four departments. Performance-based budgeting involves the introduction of performance measures and cost information into the budget decision-making process, and should lead to more efficient and accountable delivery of governmental services.

As one of the pilot project departments, the DPR has made tremendous strides in the implementation of a performance-based budget model. The DPR completed a strategic plan and negotiated a performance-based budget agreement with the Legislature for the 1996-97 fiscal year. It also began the changes necessary to convert and express its current program and line item budget in performance terms. Based on the five key outcome areas related to the mission of the DPR—resource protection, education/interpretation, facilities, public safety and recreation—performance measures are under development which can be used as true management tools. With the cooperation of the Department of Finance, the DPR is piloting a CALSTARS accounting performance tracking system within 3 of the DPR's 23 field districts, and developing database information which will allow actual cost measurement of its activities. Based on the information from that effort, the DPR will expand outcome/measure tracking to the rest of the organization.

Capital Outlay. The Governor's Budget proposes a \$32.5 million capital outlay program for the DPR. \$3.5 million (General Fund) is included for a public safety project at San Elijo State Beach. Also included is \$2.6 million (General Fund) for critical infrastructure projects to correct mechanical and electric system problems as well as other facility deterioration. Another \$10.6 million (federal funds) is proposed for environmental enhancement and transportation mitigation programs. Approximately \$6.8 million (Off-Highway Vehicle Fund) will be used for state vehicular recreation areas, particularly to expand existing parks at Ocotillo Wells and Carnegie State Vehicular Recreation Areas. The Budget includes \$4.3 million (special funds) for acquisition of habitat areas and various capital improvement and enhancement projects, with \$1 million of that designated for the Santa Lucia Mountains. Also, \$4 million (Proposition 204) is proposed for trails, acquisition, and restoration projects.

DEPARTMENT OF FISH AND GAME

The mission of the Department of Fish and Game (DFG) is to manage California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend, for their ecological values and for their use and enjoyment by the public. The DFG manages over 800,000 acres of wildlife and aquatic habitat, including 98 wildlife areas and 99 ecological reserves, and holds conservation easements and other management tools over an additional 102,000 acres. The Governor's 1997-98 Budget proposes \$190.6 million and 1,986 personnel years for the DFG's operations and programs.

To accomplish its mission, the DFG adopted a strategic plan in 1995, and is systematically linking its annual budget to the goals and strategies identified in that plan. Accordingly, the proposed budget places increased emphasis on the strategic themes that form the foundation for long-term resource management and planning by the DFG.

- ◆ **Habitat conservation** through cooperative management of large aquatic and terrestrial ecosystems, in fulfillment of the DFG's public trust natural resource responsibilities.
- ◆ **Public service** to those whose license, stamp and tag purchases are supporting the hunting and fishing and related recreational opportunities that have been the traditional activities of the DFG, and expanding them to wildlife observation and education, urban fishing and junior hunting programs.
- ◆ **Organizational vitality** and support for the DFG's employees through training, equipment, and other resources necessary to do their jobs effectively.

Strategic Program Initiatives. The DFG is proposing six major budget initiatives for 1997-98:

- ◆ **Salmon Restoration.** To enhance and restore California's North and Central Coast and Central Valley salmon habitat and populations, the Governor's Budget provides \$13.4 million and 36 personnel years for this initiative. Included in that amount is \$10 million in Proposition 204 funds for salmon habitat restoration and enhancement projects in the Central Valley and San Francisco Bay/Sacramento-San Joaquin Delta. Additionally, the Budget proposes \$1.5 million and 12 personnel

years to support DFG's participation in the Governor's Watershed Initiative, an innovative community-based watershed approach to management, planning and habitat restoration for coastal watershed conservation, and to streamline existing permit processes. DFG is a supporting member of an interagency watershed management team, led by the Department of Forestry and Fire Protection, and will also provide technical assistance to community-based watershed groups and grants for watershed habitat restoration. (See "Resources and Environmental Quality" in the Budget Summary for more details on the Watershed Initiative.)

- ◆ **Lands Stewardship.** To improve the management of its own lands acquired for fish, wildlife and plant resource conservation and use by the public, and to promote habitat conservation on private lands, the DFG is developing a statewide policy that will guide how it acquires and manages lands in the future, and will foster cooperative management and technical services for habitat conservation on private and other public lands.

The Budget proposes \$2.6 million and 26 personnel years to:

- 1) evaluate how well current land holdings are meeting acquisition objectives,
- 2) support volunteer "resident stewards" to assist with protection and maintenance and "good neighbor" projects on lands currently managed by the DFG,
- 3) fully implement the California Wildlife Habitat Relationship Program and the Significant Natural Areas Program, and
- 4) restore riparian habitats—including \$4.3 million in Proposition 204 funds appropriated to the Wildlife Conservation Board for statewide

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riparian and parkway acquisition, enhancement, and restoration projects.

◆ Upland Game Bird Enhancement.

Through improving and expanding game bird populations and thereby increasing hunting opportunities provided to the public, the DFG is proposing an expansion of its Game Bird Heritage Program, with emphasis in Southern California. The Budget proposes \$1 million and 11 personnel years for this initiative.

◆ Striped Bass Restoration.

To improve recreational opportunities for sportfishing, this initiative aims to increase striped bass abundance in the San Francisco Bay/Sacramento-San Joaquin Delta complex, while protecting other species and implementing a fish screening program within the Delta. The Budget reflects \$721,000 from Proposition 204 bond funds for this initiative.

◆ Ensuring Warden Effectiveness.

To provide proper training, equipment, and other resources necessary for its wardens to perform their jobs, the DFG is proposing to increase operating expense budgets for its enforcement personnel by \$3.8 million. Specifically, this initiative would begin the process of modernizing the patrol vehicle fleet; replace two marine patrol vessels; ensure appropriate enforcement presence during season "openers," such as trout, deer, waterfowl and doves; and improve implementation of the revised marine enforcement plans, with emphasis on landing receipts and abalone.

◆ Business Systems Infrastructure.

To begin modernizing the DFG's information technology infrastructure, this initiative includes first

phase replacement of antiquated desktop computers, computer support personnel for field operations, the installation and administration of a wide area network that will facilitate communication and data exchange and access to all field stations over the next three years, and the development of business system applications to improve the DFG's fiscal and personnel management capability. The Budget proposes \$2 million and 11 personnel years to support this effort.

- ◆ **Capital Outlay.** The Budget proposes \$2.5 million for the DFG for capital outlay projects - \$1.2 million from the Fish and Game Preservation Fund, \$1 million in reimbursements, and \$300,000 from various special and bond funds. Of this total, \$1.6 million in minor projects is proposed to address fire/life safety, critical infrastructure, and environmental/stewardship concerns. The Volcano Creek Fish Barrier is proposed for restoration with \$500,000 in reimbursements from federal funds, and \$360,000 from the Fish and Game Preservation Fund is proposed to complete the Fish Springs Water Well, under construction.

WILDLIFE CONSERVATION BOARD

The Wildlife Conservation Board (WCB), working in conjunction with the program directives of the Department of Fish and Game, acquires, preserves, protects, develops, enhances and restores wetlands, riparian habitat, wildlife habitat, and lands supporting California's unique, threatened or endangered plants, animals and natural communities, and provides access to the State's fish and wildlife natural resources. For 1997-98, the Governor's Budget

proposes \$36.3 million and 14 personnel years for the WCB's state operations, local assistance and capital outlay programs.

Proposition 204. Of the \$995 million voter-approved Proposition 204 General Obligation bond, the Governor's Budget proposes \$9.3 million to the WCB for the acquisition of fee or conservation easements and the restoration or enhancement of habitat pursuant to the provisions of the bond act. Of that amount, \$2 million is available for the San Jacinto River in Riverside County; \$1.5 million is available for the restoration of riparian habitats along the Sacramento River and its tributaries; and \$300,000 is for the Santa Margarita River in Riverside and San Diego Counties. It is also proposed that the WCB receive \$5.5 million for acquisition, restoration, and enhancement of habitat for the San Joaquin River Parkway and Firebaugh Park in Fresno County, on behalf of the San Joaquin River Conservancy.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

The Department of Forestry and Fire Protection (CDF) provides fire prevention and suppression for approximately 36 million acres of publicly and privately owned wildlands, and administers local government fire protection under contract. The CDF regulates logging practices on private forestland, provides advisory assistance on forest management to landowners, administers urban forestry grants, regulates controlled burning of brush lands, and manages eight state demonstration forests and two state nurseries. The Budget proposes a total of \$425.2 million and 4,837 personnel years for the CDF's state operations and local assistance.

Watershed Initiative. This is an innovative, community-based watershed habitat approach to manage and restore critical watershed habitat. Concurrently, the Initiative is designed to streamline existing resource extraction permit processes by transitioning from the time-consuming and costly single project analysis to a broader-based resource management approach. The Governor's Budget provides \$391,000 from the General Fund and 4 personnel years to support CDF's participation in the Governor's Watershed Initiative. CDF is the lead coordinating entity and is supported by the efforts of staff from the Departments of Conservation and Fish and Game as well as the State Water Resources Control Board. Team members from these departments will conduct watershed assessments and identify critical environmental problems in high-priority watersheds. (See "Resources and Environmental Quality" in the Budget Summary for more details on this program.)

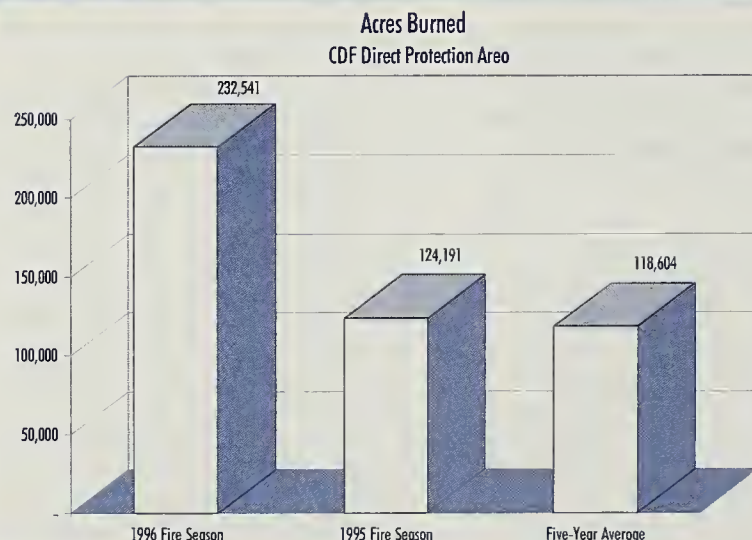
Pre-Fire Management. Recognizing that the increased complexity of the fire problem in California, particularly in the rapid growth of the interface between urban and rural environments that is creating new management challenges for all fire management agencies, CDF initiated the Pre-Fire Management Initiative in 1996-97. This is a comprehensive application of fire safety, fire prevention, and fire hazard reduction techniques. The 1996-97 Budget includes \$800,000 to begin the first of a three-phased statewide program in nine CDF ranger units and one contract county. The 1997-98 Governor's Budget proposes an augmentation of \$839,000 to bring an additional eight CDF ranger units and four contract counties into the program. Full implementation in all

- CDF ranger units will occur by spring 1999.
- **Airtanker Retrofit.** In 1995, the Legislature approved a plan to begin retrofitting CDF's piston-powered S-2 airtankers that are used for wildland fire suppression. The Budget Acts of 1995 and 1996 each appropriated \$10 million to retrofit 8 of the CDF's 14 airtankers. Upon conclusion of the competitive bid process for the retrofit contract in September 1996, it was determined that the \$20 million would only provide sufficient funding for the completion of six of the eight planes. The 1997-98 Governor's Budget proposes \$4.3 million to fully fund the eight retrofitted airtankers as envisioned, demonstrating the Administration's commitment for a safe, reliable modernized air operations program for CDF to fight fires.
- **1996 Fire Season.** Below-average rainfall for the State during the last rain season resulted in wildland fuel conditions that were significantly drier than normal. CDF reports that there were 7,961 wildland fires in the

1996 fire season (May 1996–November 1996), up nearly 13 percent over last year and up nearly 9 percent over the five-year average. More significantly, as reflected in Figure NR-1, CDF indicates that the number of acres burned in 1996 was 232,541, nearly 87 percent over last year and 96 percent over the five-year average. One major fire incident occurred from October 21-31 which resulted in a state/federally declared emergency. This high fire year resulted in the CDF needing a 1996-97 General Fund budget augmentation of \$69 million to cover the extraordinary costs of fire suppression.

Capital Outlay. The Budget recommends a total of \$31.9 million for the CDF's Capital Outlay Program. Of this amount, \$12.4 million is proposed in new lease-revenue bond authority to complete 11 telecommunication towers and vaults which are part of the State's emergency communication system. In addition, the Budget proposes \$19.5 million from the General Fund for the following types of projects: replacing five

FIGURE NR-1



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undersized, outmoded air attack and helitack bases and replacing a retardant transfer system at a sixth; replacing four emergency command centers; relocating or replacing 12 fire stations due to expiring leases and other concerns; addressing health/safety and repair issues at ten conservation camps and two barracks/messhalls; removing hazardous underground storage tanks; replacing three apparatus buildings that protect fire fighting equipment; and replacing the water system at a forest fire station that is threatened with contamination.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources (DWR) protects, conserves, develops, and manages California's water agricultural, industrial, municipal, and environmental uses. The DWR operates the State Water Project (SWP), which consists of 27 dams and reservoirs, 26 power and pumping plants, and over 700 miles of aqueduct. The DWR also manages the State Water Bank, purchasing water from districts or agencies with surplus water in storage and from farmers or districts that can replace their surface supply by pumping groundwater. The Budget proposes a total of \$426.6 million and 2,697 personnel years for the DWR's state operations and local assistance programs.

Proposition 204. In November 1996, the voters enacted Proposition 204, a \$995 million General Obligation bond that will provide funds for restoration of the San Francisco Bay/Sacramento-San Joaquin Delta and provide reliable water supplies to the State. Of this amount, \$188 million is directly appropriated on a continuous basis to DWR, with another \$93 million shared with the Department of Fish and Game. These funds

are to be used for, among other things, projects that are designed to protect, maintain, restore and enhance the overall quality of Bay/Delta as well as to provide balanced water supply and flow capabilities. The Budget reflects \$74.7 million in expenditures for 1996-97 and \$95.3 million for 1997-98.

Mono Lake. The Budget proposes \$9 million for the final year of a four-year project by the City of Los Angeles to replace diversions from Mono Lake and restore historical water levels in the lake.

Flood Protection—Public Safety.

The State's Flood Forecasting Program prevents loss of life and reduces damage to property during floods by providing river forecasts and coordinating reservoir flood control releases. In addition, hydrologic data from the State's real-time flood telemetry network is used to produce the flood forecasts on major rivers of Northern and Central California. Due to increasing maintenance costs, shrinking budgets, and increased vandalism, these systems have been operating at less than desired capability. To ensure reliable performance of the State's total flood forecasting operation, the 1997-98 Governor's Budget proposes \$418,000 to provide much-needed equipment and maintenance to the State's Flood Forecasting System and to DWR's telemetry network.

In addition, the Budget proposes \$450,000 to increase the maintenance and sediment removal schedules for DWR's Sacramento River Flood Control Project. Due to the last few years of above average rainfall in Northern California, substantial sediment has built up in various parts of the project. In addition, other areas became overgrown with vegetation due to several years of drought. These funds will allow

the DWR to see that critical channels and streams are cleaned out to ensure that adequate flow capacity is maintained, thereby decreasing the risk to public safety due to system failure.

Capital Outlay. The Budget proposes \$11.7 million (\$8.7 million General Fund, \$2.9 million in local reimbursements) for ongoing flood control projects (West Sacramento Levee Project, Sacramento River Bank Protection Project, and Upper and Lower Sacramento Area Levee Reconstruction) as well as initial year funding for the American River flood control levee enhancements. The Budget also reflects \$600,000 from Proposition 204 that is continuously appropriated.

DEPARTMENT OF CONSERVATION

The Department of Conservation protects California's earth resources through the promotion of conservation practices and wise use of the State's land, energy, and minerals. The Budget for 1997-98 proposes \$416.9 million and 599 personnel years for the support of the Department's programs.

Watershed Initiative. The Budget proposes \$860,000 from the General Fund and two personnel years for the Department of Conservation's participation in the Governor's Watershed Initiative. In addition to being a supporting member of the interagency watershed management team, led by the Department of Forestry and Fire Protection, the Department of Conservation will also provide watershed restoration grants to eligible resource conservation districts. (See "Resources and

Environmental Quality" in the Budget Summary for more details on this program.)

Agricultural Land Conservation. The Agricultural Land Stewardship Program was established by Chapter 931, Statutes of 1995, to protect and conserve prime agricultural land threatened by development that would result in the permanent loss of this valuable environmental and economic resource. This Program would identify agricultural lands that are subject to immediate development pressures, and would offer grants to local governments and nonprofit entities for the purchase of conservation easements to retain these lands for agricultural uses in perpetuity. The Budget proposes to shift \$2 million from the Department of Water Resources' San Joaquin Valley Agricultural Drainage Program to the Agricultural Land Conservation Program. This funding proposal can achieve the agricultural land conservation envisioned by both programs, and is consistent with the mission of the Department of Conservation.

Beverage Container Recycling Program. The objectives of this Program are to ensure: 1) each beverage container type included in the recycling program reaches an 80 percent recycling goal, 2) litter is reduced statewide, and 3) recycling opportunities maximize convenience to the extent possible.

The Budget proposes \$381.1 million and 188 personnel years in support of the Beverage Container Recycling and Litter Reduction Program. This reflects the third year in a four-year program of recycling program reductions within the Department of Conservation's Division of Recycling, as mandated in Chapter 624, Statutes of 1995.

CALIFORNIA CONSERVATION CORPS

The California Conservation Corps (CCC) carries out a dual mission: the conservation and development of the State's natural resources, and the employment and development of young men and women. By bringing California's youth and the environment together, the CCC provides substantial benefits to both.

Each year, the CCC accomplishes more than three million hours of natural resource work and disaster assistance. The 2,390 corpsmembers budgeted in 1997-98 will work for local, state, and federal agencies in cities and rural areas. Typical projects include landscaping and construction work, trail building, wildlife habitat rehabilitation, stream and creek clearance, erosion control efforts, retrofitting work for energy savings, and historic renovation. The CCC serves as one of California's emergency response forces providing assistance in earthquake recovery, firefighting, flood control, oil spill cleanup, and snow removal.

During the course of their year in the CCC, corpsmembers prepare for the work force by developing job skills and strengthening academic skills. Corpsmembers take classes ranging from GED instruction to community college courses; centers also have computer laboratories to boost computer literacy.

The 1997-98 Budget proposes \$73.3 million for CCC operations and \$120,000 for capital outlay. The CCC's strategic plan envisions an entrepreneurial, results-based organization that expands opportunities for young adults to work and learn, provides enhanced services to California communities, and generates maximum return on taxpayer invest-

ment through performance-based budgeting, a Memorandum of Understanding with its stakeholders, performance agreements with its managers, and cutting red tape through simplifying business processes. Unlike traditional government, the CCC has adopted many of the marketing, revenue generating, and quality management practices of private industry.

Corpsmember Expansion. For more than 20 years, the CCC has demonstrated the potential of California youth to be willing, capable, and valuable contributors to meeting the State's needs. Building on this track record of success, the Governor has committed to increasing the size of the CCC by the year 2000.

In fulfilling this commitment, the Governor's Budget proposes \$8 million from the Petroleum Violation Escrow Account for an energy assistance program. This program would meet the demands of those individuals that are currently not eligible for existing federal funds through the Department of Community Services and Development (CSD).

The CCC will explore opportunities to partnership through contract with CSD and/or local community services agencies to perform the energy audits, while the CCC would perform the weatherization, rehabilitation, or reconstruction work as identified by the energy audits. This funding will allow the CCC to work collaboratively with local nonprofit organizations, such as the 11 local conservation corps programs and community-based organizations throughout California, with the objective of providing opportunities for and developing the State's youth, while at the same time helping the State's economically disadvantaged save in their home energy costs.

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It is estimated this augmentation, along with the CCC's other marketing strategies, would increase the number of new corpsmembers by up to 530. Additionally, it is estimated that 8,000 more homes could be weatherized and that these residents could realize, on average, savings of \$116 per home per year.

Minimum Wage. As a result of enactment of the federal minimum wage increase (HR 3448) and passage of Proposition 210, the State minimum wage initiative, the Budget includes an increase for the CCC of \$1.5 million for 1996-97 and \$3.5 million for 1997-98.

STATE CONSERVANCIES

For the **State Coastal Conservancy**, the Governor's Budget proposes \$4.2 million in support and 48.9 personnel years, and \$26.2 million for capital outlay and local assistance from various funding sources. The Conservancy assists in the preservation of sensitive or unique coastal property, increases public access to coastal areas, resolves coastal land use disputes, and provides grants for various coastal activities.

As part of the Governor's Coastal Initiative, the Budget proposes \$7.7 million General Fund for the Conservancy. Of that amount, \$5.7 million is proposed for the Southern California Wetlands Restoration Clearinghouse and \$500,000 is proposed for the San Francisco Bay Wetlands Mitigation Bank; and \$1.5 million is proposed to administer grants to fund the planning, development, and management of coastal access points. The Conservancy is also recommended to receive \$5 million from the General Fund to acquire and restore coastal wetland and watershed habitats in San Diego County to help implement

the Natural Conservation Planning Program currently underway. The Budget also provides \$7 million from Proposition 204 for acquisition, restoration, and enhancement of habitat for the following rivers: \$2 million for the Los Angeles River and tributaries, \$3 million for the Otay River, and \$1 million each for the Russian and Napa Rivers.

In accordance with the California Wildlife Protection Act of 1990, the Budget further proposes \$4 million from the Habitat Conservation Fund to be used for Coastal Resource Enhancement activities. In addition, the Budget includes \$1.5 million in federal funds and \$700,000 in reimbursements for coastal resource development and enhancement projects. An additional \$500,000 is proposed from the State Coastal Conservancy Fund of 1976 for public accessways projects in the San Francisco Bay Area and along the California coastline.

For the **California Tahoe Conservancy**, the 1997-98 Governor's Budget proposes \$2.5 million and 26.5 personnel years for support, \$4 million for local assistance, and \$5.5 million for capital outlay. The Conservancy acquires, preserves, and manages lands in the Lake Tahoe region to protect the natural environment, provide public access and recreational facilities, and preserve wildlife habitat areas.

The continuing dead and dying tree crisis in the Tahoe Basin and increased Conservancy landholdings warrant extension of the 1996-97 General Fund increase of \$257,000 for fuel reduction and land management contracts. The Budget proposes \$1 million from Proposition 204 for acquisition, restoration, and enhancement of habitat for the Truckee River. In addition, the Budget includes \$4.5 million in ongoing

General Fund, \$536,000 in special funds, and \$1.4 million in reimbursements to continue critical capital outlay and local assistance programs. Program funding will provide for acquisition, construction and restoration projects to enhance public access, wildlife habitat protection, soil erosion control, stream environment zone and watershed restoration, and lake water quality. The Conservancy plans to spend \$5 million in continuously appropriated funds from Proposition 204 for water quality improvement projects.

The **San Joaquin River Conservancy** is recommended to receive \$174,000 and 1.5 personnel years for support and \$5 million for capital outlay in the 1997-98 Governor's Budget. The Conservancy acquires and manages public lands within the San Joaquin River Parkway for conservation and public enjoyment. The 1997-98 Governor's Budget proposes \$164,000 from the Environmental License Plate Fund (ELPF) and \$10,000 in reimbursements for a second year of administrative support to allow the Conservancy to develop a five-year capital outlay plan and prepare a blueprint for self-sufficiency. The Budget proposes providing \$5 million in reimbursement authority to allow acceptance of grants for acquisition and enhancement of lands within the parkway area. It is also proposed that the Wildlife Conservation Board receive \$5 million from Proposition 204 for acquisition, restoration, and enhancement of habitat in the San Joaquin River Parkway on behalf of the Conservancy.

For the **Coachella Valley Mountains Conservancy**, the Governor's Budget proposes \$229,000 and two personnel years for support and \$540,000 for capital outlay. The Conservancy acquires and holds the public lands in the mountainous area surrounding

the Coachella Valley for conservation and public enjoyment. The Budget proposes \$99,000 from the ELPF for a second year of administrative support. Two years of seed funding will assist the Conservancy to develop a five-year capital outlay plan and self-sufficiency plan and is expected to be adequate to give the Conservancy an opportunity to achieve self-sufficiency.

The **Santa Monica Mountains Conservancy** is recommended to receive \$582,000 and 5.5 personnel years for support and \$5 million for capital outlay. The Conservancy acquires, restores, and protects lands in the Santa Monica Mountains Zone and Rim of the Valley Corridor. The Budget proposes \$96,000 from the ELPF, \$446,000 from the Santa Monica Mountains Conservancy Fund, and \$40,000 in reimbursements for administrative support to facilitate conservation of open space and improved recreational opportunities. Also, \$5 million from Proposition 204 is proposed for acquisition, restoration, and enhancement of habitat for the Los Angeles River and tributaries.

DEPARTMENT OF BOATING AND WATERWAYS

The program objectives and responsibilities of the Department of Boating and Waterways (DBW) are developing and improving boating facilities throughout the State, and promoting the safety of persons and property connected with the operation of vessels. The DBW administers a local assistance program to develop boating facilities and programs for boating safety, education, water-related law enforcement, beach erosion control, water hyacinth control, and the construction of boating facilities in the State Park System and State Water Project reservoirs.

To meet these needs, the Governor's Budget proposes \$59.1 million in expenditures and 82 personnel years.

With these funds, the Governor's Budget proposes \$12.3 million for small craft harbor loans to public agencies to make access and shoreline improvements, to construct new berths, and to repair existing facilities; \$14.1 million for grants to construct new, and to improve existing, boat launching facilities on lakes and rivers; \$6 million for loans for private marina development and improvements; \$3.4 million for three beach erosion control projects; and \$3 million for levee repairs and maintenance. In addition, the Governor's Budget proposes to continue \$7.6 million in aid to local agencies for boating law enforcement, which is double the amount that was provided in 1995-96.

Capital Outlay. The Budget includes \$8.7 million in Harbors and Watercraft Revolving Fund monies to construct boating facilities on State Parks, regional parks, and federal lands for public recreation. Projects include boat ramps, restrooms, walkways, and parking areas.

ENERGY COMMISSION

The Energy Resources Development and Conservation Commission is charged with encouraging a reliable and affordable energy supply, while supporting policies which also address the need to protect the environment and maintain the health, safety, and general welfare of California's citizens. The Commission approves siting of new power facilities and encourages both measures to improve efficient uses of energy as well as alternative ways to conserve, generate, and supply energy.

Chapter 854, Statutes of 1996, enacted landmark energy legislation that deregulates California's electrical industry. This statute assigns the Commission the responsibility for two public interest grant programs—research development and demonstration (RD&D) and renewable technologies—which will be funded through ratepayer funds. The Governor's Budget includes half-year program funding of \$66.8 million for both grants and administration (\$21.1 million for RD&D, and \$45.7 for renewable technology), as well as 7 limited term positions. (See the narrative for the Public Utilities Commission for additional information related to electrical restructuring.)



TRADE AND COMMERCE

The Trade and Commerce Agency serves as the State's primary organization for promoting business development and job retention efforts, including assisting in-state expansion of existing companies while nurturing the growth of emerging industries, technologies, and small businesses. The Agency develops and oversees international trade policy and marketing through its export finance, foreign trade, and investment functions. The Agency provides business assistance services through its four regional economic development offices within California and seven international trade and investment offices.

The Agency also seeks to aid the development of the California economy by working with domestic and international businesses, economic development corporations, chambers of commerce, regional visitor and convention bureaus, and permit-issuing governmental agencies on retaining or expanding specific business operations in California as well as through efforts to market California's overall business climate. The Agency provides additional services to the business community through the Offices of Permit Assistance, Strategic Technology, Business

Development, Tourism, Marketing and Communications, California-Mexico Affairs, and the California Film Commission.

The Governor's Budget for 1997-98 proposes total expenditures of approximately \$77.1 million and 302 personnel years, a reduction of \$12.6 million and an increase of 10 personnel years from 1996-97.

Major budget proposals for 1997-98 include:

- ◆ An augmentation of \$939,000 and six positions to create three new foreign offices in South Korea, China, and Brazil. This will provide California companies representation and assistance in these important emerging markets.

- ◆ An augmentation of \$131,000 and two positions to allow the California Film Commission to meet its legislative mandate to retain film production in California, and to keep the film commission competitive with film commissions around the world. The staff will be used in part to respond to filmmaker demand for use of the new digital film location image library.

- ◆ An augmentation of \$8 million to meet the anticipated demand for loans to replace underground storage tanks. The Replacement of Underground Storage Tank (RUST) Program was established in 1989 to finance the removal or upgrading of underground storage tanks enabling small independent operators to comply with federal law.

- California's long-term economic health depends on adequate private and public investments in infrastructure. The Governor's Budget proposes a \$200 million General Obligation Bond Program for the development of an Infrastructure Bank, consistent with the intent and objectives of legislation enacted in recent years. As a part of the proposal to fund the Infrastructure Bank, the Administration is proposing the consolidation of the California Infrastructure and Economic Development Bank (CIED Bank) and the California Economic Development Financing Authority (CEDFA) into one entity within the Trade and Commerce Agency. Consolidation of these authorities will eliminate duplication in decision making and create a "one-stop shop" for dealing with California public and private infrastructure needs.

BUSINESS, TRANSPORTATION, AND HOUSING

The Business, Transportation, and Housing Agency provides leadership and oversight of state programs that develop and maintain the State's transportation infrastructure, regulate businesses to ensure efficient and fair markets for financial and real estate businesses and managed health care service organizations, and assist our communities to expand the availability of affordable housing to accommodate an expanding workforce—components necessary to sustain California's growing economy.

In addition, the Agency contributes to the Administration's efforts to enhance public safety through oversight over the California Highway Patrol and the law enforcement efforts of the Department of Alcoholic Beverage Control.

Figure BTH-1 displays the funding proposed in the Business, Transportation, and Housing portion of the Governor's Budget. The majority of the funding is provided from special fund revenues and federal funds. Significant General Fund expenditures are

- made for general obligation bond
- debt service for voter-authorized rail,
- seismic retrofit, and housing pro-
- grams and to support a variety of
- programs in the Department of Housing and Community Development.

TRANSPORTATION

State expenditures for transportation and related public safety programs are provided in varying degrees by the Department of Transportation, California Transportation Commission, California Highway Patrol, Department of Motor Vehicles, Office of Traffic Safety, and local government agencies. Most of the revenue to support transportation expenditures in the State is derived from state and federal fuel taxes, the sales and use tax on diesel fuel, motor vehicle license and registration fees, weight fees for trucks and trailers, and local sales taxes. Approximately \$7.6 billion in expenditures on roads, highways, mass transit, vehicle licensing and registration, and public safety are proposed in the Governor's Budget for 1997-98.

FIGURE BTH-1

Business, Transportation, and Housing Proposed 1997-98 Expenditures All Funds (Dollars in Thousands)

	State Operations	Local Assistance & Capital Outlay
Agency Secretary	\$2,207	—
Department of Alcoholic Beverage Control	29,922	\$1,000
Alcoholic Beverage Control Appeals Board	550	—
Department of Financial Institutions	19,293	—
Department of Corporations	29,516	—
Department of Housing and Community Development	33,082	113,871
California Housing Finance Agency	15,056	—
Office of Real Estate Appraisers	4,096	—
Department of Real Estate	27,367	—
California Transportation Commission	2,446	225,000
Special Transportation Programs	—	84,800
Department of Transportation	2,053,800	3,802,603
Office of Traffic Safety	14,833	10,682
California Highway Patrol	851,020	7,353
Department of Motor Vehicles	564,009	7,612
Stephen P. Teale Data Center	85,537	—
Bond Debt Service	273,609	—
Totals	\$4,006,343	\$4,252,921

Department of Transportation

The California Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive transportation system of more than 15,200 miles of highways and free-ways, and provides rail passenger services under contract with Amtrak. Caltrans also provides technical assistance and development loans to more than 100 of California's public general aviation airports. The Governor's 1997-98 Budget proposes total Caltrans expenditures of over \$5.8 billion from federal funds, reimbursements, and various state funds, and staffing of 16,677 personnel years.

The 1997-98 Budget marks the seventh year of implementation of the transportation plan approved by the voters in June 1990. With the Transportation Congestion Relief and Spending Limitation Act of 1990 (Proposition 111), and the Passenger Rail and Clean Air Bond Act of 1990 (Proposition 108), the voters approved a ten-year, \$16.5 billion increase in new transportation revenues. California voters also approved the Clean Air and Transportation Improvement Act (Proposition 116), a \$2 billion bond measure for rail transit, in June 1990. Funding from this measure is appropriated to the California Transportation Commission which estimates that it will expend \$225 million in 1997-98.

Equipment Service Center

A major goal of the Administration has been to make the most effective use of taxpayers' dollars. Consistent with this philosophy, the Governor's Budget proposes to restructure Caltrans' mobile equipment services program which maintains, repairs, and manages vehicles and

equipment. The restructured Equipment Service Center will operate under a private sector model of delivering services. The Equipment Service Center will charge Caltrans' core programs (for example, Aeronautics, Highway Transportation, and Mass Transportation) for services and operate based on the revenue raised from providing these services. As a separate program with its own internal service fund, the Equipment Service Center managers will be able to determine the true cost of equipment services and be able to make long-term decisions on operating efficiencies, appropriate charges, and projected income. As a revenue-supported program, the Equipment Service Center will be charged with providing cost competitive services and satisfying customers in Caltrans' core programs.

Accelerating Highway Projects

Additionally, the Governor's Budget proposes \$151.7 million including approximately \$123 million for private sector consultants to provide architectural-engineering design services in order for Caltrans to accelerate delivery by 6 to 18 months of \$480 million of transportation projects in the State Transportation Improvement Program and the State Highway Operation and Protection Program. These consultants will be able to supplement the Caltrans' staff and initiate work on architectural-engineering design so that the State can begin highway construction earlier, thereby saving on the increases in construction and material cost associated with a later start date. This represents a net increase in the use of project delivery consultants of \$43.5 million over the 1996-97 level.

Protection of the Transportation Investment

The Governor's Budget proposes a total of \$651 million for maintenance of the existing state highway system. This includes an increase of \$6.3 million (within a total proposed increase of \$7.6 million) to hire private sector firms to supplement the efforts of the Caltrans' staff in order to maintain more efficiently highway system roadways, structures, landscaping, and to maintain additions to the highway system inventory. Caltrans plans to use the private sector for a variety of maintenance work as a more effective way of doing business.

With the enactment of the Federal Intermodal Surface Transportation and Efficiency Act, and the State's own transportation plan, Caltrans has increasingly incorporated many transportation management systems technologies and hardware into the highway system to reduce congestion and improve the effective carrying capacity of the highways. The Governor's Budget proposes an increase of \$14 million to maintain the State's investment in transportation systems management software and hardware. This augmentation will primarily be used to purchase contract services for maintenance and replacement of this equipment.

Seismic Retrofit and Earthquake Recovery and Restoration

In March 1996, the voters passed Proposition 192 which provides authority for the State to issue \$2 billion of General Obligation Bonds to finance seismic retrofit projects on bridges and overpasses on the State highway system (Phase II) and on the State's toll bridges. Proposition 192 sets aside \$1.35 billion for Phase II seismic projects, and \$650 million



for seismically retrofitting state-owned toll bridges. Shortly before the bond measure was approved, Caltrans announced that its latest costs estimates to retrofit the toll bridges had escalated from its original estimate of \$650 million to \$2 billion, leaving the General Obligation Bond measure short by \$1.35 billion of the financing necessary to complete the retrofit of the toll bridges. At the same time, the enactment of Proposition 192 made \$1.35 billion in bond funds available for Phase II seismic projects, thereby releasing an equivalent amount of State Highway Account Funds, which had been set aside to complete these projects. These funds were originally intended for State Transportation Improvement Program (STIP) highway and mass transit projects, but were instead diverted for use in funding Phase II seismic projects following the Northridge Earthquake. Attempts by the Legislature to address the funding shortfall for toll bridge seismic retrofit, and the disposition of the \$1.35 billion in released State Highway Account Funds during the end of the 1995-96 session, failed to produce an agreement on how to address the shortfall in toll bridge seismic funding.

Caltrans has continued its program of engineering design and testing for the retrofit of the State's toll bridges. As a result of these engineering studies, Caltrans has indicated that the previously assumed schedules for initiating the seismic improvements to some of these bridges will be extended by up to six months. As a consequence of this and refined estimates of cash flow, the capital outlay funding that was assumed to be necessary for fiscal year 1996-97 is significantly reduced and will instead be required in fiscal year 1997-98 and beyond. The Governor's Budget proposes the expenditure of \$101.8 million from

Proposition 192 bond funds in 1996-97 for toll bridge retrofit. For 1997-98, the Governor's Budget proposes the expenditure of \$457.4 million from Proposition 192 bond funds. Additionally, in an effort to restart the dialogue on reaching a long-term funding solution, \$500 million in reserves have been identified from the State Highway Account to assist in addressing future costs of retrofitting the State's toll bridges, assuming that a Legislative compromise can be crafted on the appropriate funding mix for this effort which is acceptable to the Administration.

As of December 1996, Caltrans has evaluated 1,655 highway structures under their Phase II Program and determined that 1,155 of these structures require some retrofit. Seismic retrofit of 846 of these structures is either completed or underway; the remaining 309 are estimated to be completed or under construction by the end of 1997-98. Caltrans estimates that the program will cost approximately \$1.35 billion. The Governor's Budget reflects \$328 million in 1997-98 expenditures for this purpose.

Capital Program

Placing safety first, the Governor has ensured that funds are available for safety projects as his top transportation priority. This includes seismic safety retrofit and other vital, new construction projects that are critical to ensuring the safety and integrity of the transportation system while promoting the efficient movement of people, goods, and services.

The Governor's Budget proposes a capital program for nonseismic retrofit projects of \$2 billion, which includes \$1.5 billion to fund the State Transportation Improvement Program (STIP) and State Highway Operations

and Protection Program (SHOPP) projects which are programmed to be delivered in the 1997-98 fiscal year.

Mass Transportation

Caltrans administers intercity passenger rail route services on three routes: 1) the "San Diegans" between San Diego-Los Angeles-Santa Barbara-San Luis Obispo; 2) the "San Joaquins" between Bakersfield and Oakland; and 3) the "Capitols" between Roseville/Sacramento-Oakland-San Jose.

The State contracts with Amtrak to provide intercity passenger rail route services under the provisions of the federal act. The Budget includes an augmentation of \$7 million, which represents a preliminary estimate of the state costs for the increased cost of providing intercity rail passenger service in the 1997-98 fiscal year. The final cost will be determined by federal policy makers during federal budget deliberations. In order to recognize the final cost of Amtrak services, the Budget Bill contains provisions to adjust the level of Amtrak funding when an Amtrak contract is executed. An additional \$2.2 million has also been provided to the intercity rail program to provide additional train service between Sacramento and Stockton and would replace feeder bus service between the two cities.

Chapter 796, Statutes of 1996, creates the High Speed Rail Authority to direct the development and implementation of an intercity high speed rail service that is fully integrated with California's transportation network. The Authority is responsible for the preparation of a plan for the construction and operation of a high speed train network for the State. The legislation requires the

BUSINESS, TRANSPORTATION, AND HOUSING

Authority to either submit a financial plan to the Governor and the Legislature for approval and enactment as legislation, or directly to the voters of the State.

Department of Motor Vehicles

The Department of Motor Vehicles (DMV) is responsible for enhancing driver safety through the licensing of drivers, protecting the public by regulating the vehicle industry, issuing identification documents, and collecting licensing and registration revenues. As part of this responsibility, DMV collects revenue for various state and local government programs and provides information from its driver's license and registration files. The Governor's Budget proposes \$564 million and 8,751 personnel years for DMV to carry out its responsibilities in 1997-98.

The Governor's Budget proposes up to \$19.1 million for the DMV to implement Chapter 1126, Statutes of 1996 (AB 650). This Statute requires every driver and motor vehicle owner to establish financial responsibility, usually through the purchase of an insurance policy, and carry proof of financial responsibility in the vehicle at all times. It also requires every vehicle registration applicant to submit evidence to the DMV that they are in compliance with the financial responsibility requirements of this law. Although the provisions of this new law will be initially implemented by requiring applicants to provide proof of insurance at the time of registration, the Administration is exploring a more efficient and less costly option of obtaining electronic verification of compliance directly from insurance companies.

With the enactment of Chapter 1042, Statutes of 1996 (AB 1683),

DMV and Department of the California Highway Patrol (CHP) will assume responsibility for the regulation of intrastate motor carriers which was formerly performed by the Public Utilities Commission. The Governor's Budget contains \$8.1 million from the implementation of the new fee schedule contained in this law to fund the Department's new responsibilities for maintaining records of insurance coverage for liability and workers compensation required of motor carriers, and for registering carrier fleets.

The Governor's Budget contains several proposals to outsource and streamline departmental activities. It is proposed that the drive test portion of the commercial licensure process be outsourced to third-party testers, which may include, driving schools, employers, educational institutions, and traffic safety organizations.

The Salesperson Licensing Program is proposed for elimination. Under this program, the DMV checks vehicle salespersons' personal history applications for false information regarding criminal history, and investigates complaints made against salespersons. However, since vehicle dealers are also held responsible for their salespersons' activities, they also have a strong incentive to thoroughly screen and monitor their employees. It is believed that screening salesperson applicants can be left with the private sector without adversely impacting the public. Elimination of this program, which will be proposed through legislation, would save \$444,000 and 13.2 personnel years.

The Governor's Budget for the DMV also reflects savings of \$420,000 estimated to result from a proposal to outsource janitorial and grounds-keeping services throughout all

facilities owned or leased by the DMV. The DMV has 204 facilities, 55 of which are currently maintained by the Department of General Services, Office of Buildings and Grounds.

Motor Vehicle Account Fiscal Condition

During the preparation of the Governor's Budget, it was known that absent corrective action, the Motor Vehicle Account (MVA) would incur a sizable deficit in 1996-97 and 1997-98. This is attributable to a combination of factors including: fee levels which have generally not been adjusted to reflect any inflation or program growth for the past several years; uncertainty in the continuing availability of surplus earnings from the Public Employees Retirement System (PERS), which have been relied upon to pay the employer and employee retirement contributions; the additional costs incurred for the CHP collective bargaining agreement concluded in 1995; and the loss of significant amounts of reserves in the MVA through transfers to other funds during the early 1990s.

The Governor's Budget proposes to address this potential deficit through a combination of fee increases in the 1997-98 and savings in 1996-97 for both the Department of Motor Vehicles and the California Highway Patrol. In 1996-97, the DMV budget reflects \$7.5 million in estimated savings, and the CHP budget reflects \$7.5 million in savings. The Budget also assumes that the recent investment performance by PERS will result in at least a \$40 million deposit of assets in excess of liabilities to the PERS Surplus Assets Account for CHP by June 30, 1997, which can be used to fully cover all 1996-97 payments for both the employee and

employer PERS contributions for uniformed officers. Additionally, it is proposed that a loan of \$12.8 million from the State Highway Account to the MVA be authorized. It is estimated that these actions will enable the State to avoid a deficit in the MVA in the 1996-97.

For 1997-98, the Governor's Budget proposes to increase various drivers' licensing fees, which do not recover DMV's costs, to levels which recover more of the costs. These fee increases are estimated to raise a total of \$50 million in 1997-98 and will require legislation as a trailer to the budget. Additionally, the Governor's Budget proposes to support the Commercial Motor Vehicle Inspection Program entirely from the State Highway Account for a savings of \$31.8 million.

BUSINESS

Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control is responsible for licensing and regulating over 71,000 businesses licensed to manufacture, distribute, and sell alcoholic beverages in California.

The Governor's Budget for 1997-98 proposes total expenditures of approximately \$30.9 million and 424 personnel years.

In support of the Administration's continued emphasis on reducing the problems associated with alcohol abuse and related crime problems, and because increased funding to the Alcohol Beverage Control Fund was provided by Chapter 339, Statutes of 1996 (AB 385), the following focused activities are made possible:

- ◆ Continuation of \$2.5 million in funding for the Special Operations Unit which focuses enforcement efforts upon investigations of problem retail alcoholic beverage outlets, combating underage drinking, and participation in interagency law enforcement task forces.
- ◆ Continuation of \$400,000 in funding for the Licensee Education on Alcohol and Drugs (LEAD) prevention and education program which provides training to licensees in responsible alcohol sale practices and alcohol beverage laws.
- ◆ Re-establishment of \$1 million in local assistance grants for city and county law enforcement agencies to enhance staff training as it relates to state alcoholic beverage control law, with an emphasis on increasing coordination between local law enforcement agencies and the Department's law enforcement efforts.

Department of Financial Institutions

The Department of Financial Institutions was established by Chapter 1064, Statutes of 1996. Effective July 1, 1997, the Statutes will result in the consolidation of the regulation of depository institutions including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial institutions in the Department of Financial Institutions. Programs of the new Department will include all former responsibilities of the State Banking Department, Office of Savings and Loan, credit union, and industrial loan law regulatory programs previously administered by the Department of Corporations. The mission of the

new Department will be to provide the highest quality regulation and supervision of the financial services industry as efficiently as possible so as not to overburden the industry with the cost of regulation.

The Governor's Budget for 1997-98 proposes total expenditures of \$19.3 million and 226 personnel years. The Budget of the new Department will reflect a net savings in excess of \$1 million compared to the 1996-97 budget.

Department of Corporations

The Department of Corporations administers the laws governing health care service plans (HMOs), the offer and sale of securities, the offer and sale of franchise investments, the licensing and registration of securities broker-dealers and investment advisers, and the licensing and examination of mortgage brokers, finance lenders, and escrow companies. The core responsibility of the Department is to protect consumers through the administration and enforcement of these laws.

The Governor's Budget for 1997-98 proposes total expenditures for the Department of approximately \$29.5 million and 361 personnel years.

The Department is responding to the need for a new document management system adequate to handle the massive volume of regulatory files for timely access by the public as well as effective administration of the Department's regulatory responsibilities, while maintaining integrity of the information. Although the 1997-98 Budget for does not include increased funding for the project, the system design and feasibility study report is under development and, when it is completed, a funding

BUSINESS, TRANSPORTATION, AND HOUSING

augmentation will be proposed to the Legislature.

Stephen P. Teale Data Center

The Stephen P. Teale Data Center is responsible for assisting state agencies in achieving their program objectives through the application of the appropriate information technology solutions. Teale's services include support of hardware and software for large mainframe systems and open systems, a statewide telecommunications network, and specialized services including support for internet and a geographic information system.

The Governor's Budget for 1997-98 proposes total expenditures of approximately \$85.5 million and 373 personnel years. Included in the total are:

- ◆ An increase of \$4.6 million to increase capacity and replace equipment for central processing and direct storage.
- ◆ An increase of \$2.5 million to meet increased demands for telecommunication services and provide for replacement of obsolete equipment.

HOUSING

California Housing Finance Agency

The mission of the California Housing Finance Agency (CHFA) and its mortgage insurance arm, and the California Housing Loan Insurance Fund (CAHLIF) is to provide access to home financing to low-and-moderate income families.

The Governor's Budget for 1997-98 reflects total expenditures of approximately \$15.1 million and 180 personnel years.

CHAF allocates resources according to its five-year business plan. The latest plan calls for CHFA to stimulate over \$6.4 billion in private sector housing economic activity throughout California during fiscal years 1996-97 to 2000-01. In accordance with this plan, CHFA is projecting to provide approximately \$604.5 million in new first-time home loans and up to \$200 million in loan funding for affordable multifamily rental projects in 1997-98.

GENERAL GOVERNMENT

FRANCHISE TAX BOARD

The Franchise Tax Board is responsible for administering the state Personnel Income Tax, Bank and Corporation Tax, and various other non-tax revenue collection programs. These programs contribute a significant portion of the state's General Fund revenue.

The Governor's Budget for 1997-98 proposes expenditures of \$358.8 million and 5,195 personnel years for the Board.

Major budget adjustments for 1997-98 include:

- ◆ An increase of \$2.7 million and 37 personnel years to provide initial funding to expand the new Bank and Corporation (B&C) Collection Accounts Processing System (CAPS) to include Personal Income Tax (PIT) collections. Upon full implementation of the system, it is expected to produce annual revenues of \$34 million.
- ◆ A reduction of \$3.7 million to suspend the Business Tax Reporting Mandate (Chapter 1490, Statutes of 1984) which provided funding to reimburse local entities for costs they incur in supplying business license tax information

to the Board. This program has proven to be increasingly costly with no net fiscal benefits accruing to the state.

- ◆ An increase of \$2.7 million and 32 personnel years to collect delinquent student loans on behalf of the California Student Aid Commission.

DEPARTMENT OF VETERANS AFFAIRS

The Department of Veterans Affairs is responsible for providing services to veterans and dependents of veterans, administering the Cal-Vet home loan program, assisting veterans in obtaining benefits entitled to them under state and federal law, and supporting the veterans homes in Yountville and Barstow. The veterans homes are retirement communities that provide complete medical and nursing care for eligible veterans. The 1997-98 budget includes \$354.7 million (\$40.1 million General Fund, \$314.6 million other funds) and 1,424 personnel years for the Department.

Chapter 335, Statutes of 1996 authorized the Department to construct additional Southern California Veterans Homes. Construction for a

Chula Vista Veterans Home will begin in 1997 and is expected to be completed by July 1999. The Chula Vista Home will be the second 400-bed veterans home in Southern California, and the third home in the State. The 1997-98 budget includes \$209,000 General Fund and three positions for a pre-activation unit to initiate necessary preparations for the Chula Vista Home in order to admit veterans shortly after construction is completed.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The mission of the Department of Fair Employment and Housing is to promote and enforce the civil rights of the people of California by enforcing the Fair Employment and Housing Act, the Unruh Civil Rights Act, and the Ralph Act. One of the Department's goals is to maximize the efficient use of State resources in the delivery of services to the public, with emphasis on negotiation and timely processing and resolution of discrimination complaints. The Governor's Budget includes an augmentation of \$2.5 million General Fund and 40 personnel years for the Department to increase its service to the citizens and employers of California by reducing the

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investigation time of employment complaints. The Budget proposes a total expenditure of \$18.7 million (\$14.7 million General Fund, \$4 million other funds) and 295 personnel years for the Department. In addition, the budget includes an augmentation of \$403,000 (\$303,000 General Fund, \$100,000 reimbursements) and three personnel years for the Fair Employment and Housing Commission to conduct hearings of employment discrimination accusations filed by the Department of Fair Employment and Housing. The Commission's budget for 1997-98 totals \$1.2 million (\$1 million General Fund, \$150,000 reimbursements) and 12 personnel years.

CALIFORNIA SCIENCE CENTER

Beginning in 1997-98, the California Science Center will be the new name for what was formerly the Museum of Science and Industry (Chapter 841, Statutes of 1996). The Center currently has a new, primary exhibition hall that is under construction. Construction is projected to be completed by April 1997, and the new facility is expected to open in September 1997. The 1997-98 budget for the Center includes an augmentation of \$2.5 million General Fund for building and exhibit maintenance, exhibit security, and one-time equipment, as well as \$3 million General Fund for debt service on the new facility. The total 1997-98 budget is \$13.8 million (\$11.4 million General Fund, \$2.4 million other funds) and 122 personnel years.

The new complex will include a major science center, a resource center with professional development programming for science educators, and a new state-of-the-art 3D IMAX theater. In addition, the Center has joined with the

Los Angeles Unified School District to build a science and math-focused neighborhood elementary school on-site with the new Science Center. The Center is the only facility in the country combining a major science center, an adjacent science-focused neighborhood elementary school, and a teacher professional development center in one location.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations (DIR) seeks to protect the workforce, improve working conditions, and advance opportunities for profitable employment. For fiscal year 1997-98, the Governor's Budget proposes \$218.9 million and 2,538 personnel years for DIR.

Prevailing Wage Surveys. The Governor's Budget includes \$1.3 million General Fund and 19 personnel years to conduct additional prevailing wage surveys. The Department's historical practice of using collective bargaining agreements to set prevailing wages no longer reflects wage rates prevailing in many localities in the State. It is anticipated that prevailing wage rates determined through these expanded surveys will result in significant costs savings in publicly financed construction in the State.

Streamlining Regulatory Reform.

The Governor's Budget includes \$210,000 General Fund and two personnel years to restructure the CAL-OSHA General Industry Safety Orders and consolidate over 1,200 regulations in Title 8 of the California Code of Regulations. Streamlining the regulations will result in a simpler and more user-friendly code for California employers and employees.

DEPARTMENT OF FOOD AND AGRICULTURE

The Department of Food and Agriculture (DFA) is responsible for protecting and promoting California's agriculture, providing leadership in the development of agricultural policy, and enforcing weights and measures standards in commerce. The Department's activities include prevention and eradication of harmful plant and animal pests and diseases; marketing and export assistance to the agriculture industry; development and enforcement of weights and measures standards; and assistance to county agricultural commissioners and local fairs. The 1997-98 Governor's Budget proposes a total expenditure of \$190.9 million (\$64.1 million General Fund, \$126.8 million other funds) and 1,774 personnel years.

Public Awareness and Compliance.

The 1997-98 Budget includes \$1 million General Fund and seven personnel years to fund public education, outreach, and compliance activities designed to reduce the introduction of foreign agricultural pests and diseases. These activities were previously funded through the Agriculture Fund with funds collected in the Airport Maritime Inspection Program which are no longer available.

Export Liaison on Chemical Regulations.

The Budget also proposes \$364,000 General Fund and two personnel years to fund new activities relating to representation of California's interest in the international agricultural community on issues of maximum residue limits. The proposed new activities undertaken by the DFA would include participation in Codex Alimentarius, an international organization which establishes food safety regulations; the establishment and maintenance of a database of information on

MILITARY DEPARTMENT

The Military Department is responsible for the California Army and Air National Guard and four other programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The 1997-98 Governor's Budget proposes a total expenditure of \$56.8 million (\$20.1 General Fund, \$36.7 million other funds) and 628 personnel years.

Armory Infrastructure and Maintenance. The 1997-98 Budget includes \$1 million General Fund to rehabilitate facilities throughout the State. This will enhance the security of the State's armories and provide necessary funding for health and safety projects. In addition, \$808,000 General Fund and 15 personnel years are proposed for increased maintenance and custodial personnel to maintain National Guard facilities throughout the State.

California National Guard Youth Programs—Angel Gate Academy. The Budget includes \$6.4 million increased reimbursements and 64 personnel years for the Angel Gate Academy at Camp San Luis Obispo. The Angel Gate Academy, a joint effort of the California National Guard and the Los Angeles Unified School District, will provide a proactive 12-month intervention program for middle school students, grades six through eight, who are at risk of school failure and involvement with the legal system.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission is responsible for the regulation of the utilities and transportation industries to ensure the delivery of stable, safe, and economic services. The Commission has traditionally

foreign regulations pertaining to residue limits; and communication between farmers and foreign governments regarding residue limit issues. Implementation of this proposal will enhance the competitiveness of California agricultural business in international markets by ensuring the State's commodities stay current with the requirements of those markets.

OFFICE OF EMERGENCY SERVICES

Disaster Administration. In time of a major emergency or disaster in the State, the Office of Emergency Services (OES) coordinates emergency activities to save lives, reduce property losses, and expedite recovery efforts. The 1997-98 Governor's Budget proposes \$75.7 million (\$29.6 million General Fund, \$38.1 million federal funds; \$8 million other funds) and 851 personnel years for the operations of OES.

Local Assistance. The Governor's Budget includes \$491.7 million proposed for 1997-98 (\$59.2 million General Fund, \$420.5 million federal funds, \$10.2 million quarter-cent sales tax funds, \$1.8 million Nuclear Planning Assessment Special Account) for payment of disaster response and recovery costs incurred by local governments and planning for safety at nuclear power plants. Of this amount, \$59.2 million General Fund is for the State's share of local public agencies' costs for various past disasters including the Northridge Earthquake. In addition, \$10.2 million quarter-cent sales tax is included for the Loma Prieta Earthquake.

Centralized Training for Urban Search & Rescue (US&R) Program. The 1997-98 Budget includes \$481,000 General Fund to provide for the development of a centralized

training facility and ongoing training and operational costs for the Urban Search & Rescue (US&R) program. This funding will provide the eight US&R task forces in the State with quality training to establish and maintain their skills in preparation for future disasters.

Fire and Rescue Equipment Program. The Budget also includes \$277,000 General Fund as a part of a three-year program to purchase fire, rescue, and communications equipment for OES fire and rescue engines. This funding will allow these engines to function at maximum efficiency to preserve lives and property while limiting the risk to firefighters as much as possible.

NORTHRIDGE EARTHQUAKE FINANCING

In June of 1994, the Administration proposed that the non-federal share of earthquake recovery costs be funded from federal loans, and such loans were authorized by Chapter 151, Statutes of 1994. The Federal Emergency Management Agency approved potential loans totaling \$175 million. However, the State did not use the entire amount available. The portion borrowed by the State has been used to fund the non-federal share of recovery costs resulting from the Northridge Earthquake through the 1995-96 fiscal year. Beginning in 1996-97, funding for these costs is provided from the General Fund as local assistance.

As required under the terms of the loan agreements, the State made payments in the amounts of \$15.3 million in July 1995 and \$46.7 million in July 1996. The Governor's Budget includes an estimated final payment of \$45.5 million in the 1997-98 fiscal year.

met this responsibility through enforcing safety regulations and/or controlling industry rates for service.

In response to changing technology, competitive pressures, state and federal directives, and emerging market forces, the Commission is actively participating in the restructuring and deregulation of various industries, most notably the electric and telecommunications industries. In addition, almost all trucking safety activities historically performed by the Commission have been reassigned to the Department of Motor Vehicles (DMV) and the California Highway Patrol (CHP.) In response to these changes and to specific statutory directives, the Commission is evaluating its mission and organizational structure with the intent to propose a comprehensive reorganization in the spring of 1997.

Restructuring the Electricity Market.

Chapter 854, Statutes of 1996, de-regulates and restructures power generation for California's \$23 billion electric utilities industry to create a market-driven economy. Over a four-year phase-in period, electricity customers will have the option to bypass local utilities to buy directly from their supplier of choice. During this transition period, no customer will pay rates higher than the June 1996 level, and residential and small commercial customers will actually receive a ten-percent rate reduction.

The statute creates the **Power Exchange (PX)**, which will match wholesale buyers with sellers, the **Independent System Operators (ISO)**, which will operate the State's existing transmission system, and a five-member **Oversight Board**, which will oversee the PX and ISO. The statute also allows utilities to finance the pay-down of certain net uneconomical assets—called "stranded costs"—through the

issuance of rate reduction bonds. These bonds will be issued by the State's Infrastructure Bank unless the Bank determines there is a less costly means of issuance. Rate reduction bonds will be paid off with revenues generated by a "competition transition charge" levied as part of electricity rates; the General Fund will not be responsible for any portion of this program's costs.

The Commission's responsibilities include determining which utility expenses can be classified as stranded costs, approving utilities' applications for rate reduction bonds, administering research and development projects for energy transmission and distribution, setting safety standards for distribution systems of investor-owned utilities, addressing consumer complaints related to deregulation, and allocating funds for low-income public-interest programs. Although the overall fiscal impact on the Commission is not yet known, as of December 1996, the Commission had identified nearly \$5 million of potential work to be reimbursed by electric utilities related to mergers, an environmental review, and an audit to determine stranded costs.

Telecommunications Industry. The natural monopoly aspects of telecommunications have receded as new technologies have allowed competition to emerge. The Commission has responded by opening local telecommunications markets on January 1, 1996. In compliance with the Federal Telecommunications Act of 1996 and state statutes, the Commission will open all telecommunications markets (i.e., long distance) within California by January 1, 1997.

Trucking Safety. Chapter 1042, Statutes of 1996, transferred the safety regulation of the trucking industry for all areas except household goods

carriers from the Commission to the CHP and the DMV, beginning January 1997. This has resulted in a significant program reduction of \$11.1 million (\$9.993 million intrastate licensing and enforcement activities and \$1.107 million interstate registration). The DMV is contracting back with the Commission to perform intrastate licensing functions until December 31, 1997.

Commission Reorganization. In response to legislative directives to perform a complete internal reform, the Commission established a task force and solicited input from all interested parties through a series of public meetings. In January 1996, the Commission completed its "Vision 2000—A Report on Our Progress Toward Change." In light of the pending legislation in 1996, the Commission deferred its internal reform in order to incorporate the directives in the new legislation.

Chapter 856, Statutes of 1996, directs the Commission to implement various four-year organizational and procedural changes, including replacing the existing Division of Ratepayers Advocate with a new body within the Commission to represent the interests of public utility customers and subscribers in the Commission's proceedings. Additionally, legislation related to the electric restructuring and the transfer of the trucking safety regulation was also enacted in the fall of 1996. The combined effect of these three statutes on the Commission's operations is significant. The Commission is currently refining an internal reform proposal for presentation to the Legislature in early spring of 1997.

THE YEAR 2000 CHALLENGE FOR CALIFORNIA

Business practices within the State have become increasingly dependent on information technology to achieve efficiency and effectiveness in providing services to the citizens of California. The change to a new millennium presents a tremendous challenge for information technology professionals who develop, operate, and support these information technology processes, as dates and date processing play a significant role within these processes. Dates are used in a wide variety of procedures such as calculating interest payments, identifying due dates, determining eligibility for statewide programs, establishing parole dates, and sorting transactions. Historically, computer systems were designed with dates containing years represented as a two-digit number. For example, 1994 is represented as 94. When the year 2000 arrives, it will be represented as 00. This will cause significant problems with calculations, sequencing, and sorting.

The State government's critical reliance on information technology in every aspect of its business has become so extensive that the policy and fiscal implications of year 2000-related problems could be immense. California's direction must be comprehensive, must leverage limited resources, and must manage and contain risks to the health and safety of its citizens, public policies, and revenue streams. To this end, the newly created Department of Information Technology (DOIT) is taking the lead to ensure the State's information technology processes are fully functional as we enter the new millennium.

The DOIT has created a Year 2000 Task Force and a California 2000 Office to establish statewide policy

requirements; gather, coordinate, and share information; and to monitor statewide efforts in meeting the Year 2000 challenge. As the deadline for modifying applications approaches, the DOIT emphasizes that departments focus their efforts on applications which support mission-critical business practices. DOIT required reporting of Year 2000 activities which began in December 1996 and continues with departments submitting their assessments and planning schedules in the spring of 1997.

Meeting the Year 2000 challenge will require extensive coordination and a high-priority commitment to making available the resources necessary to meet this deadline. As this could be a very costly effort, departments are conducting comprehensive assessments of their resource requirements and their ability to contain costs within their existing budgetary resources.

With the DOIT guidelines forming the foundation, departments are moving ahead with their plans to modify and convert computer systems to meet date-related requirements which address the changing century. The Administration expects to evaluate and assess funding requests during the spring budget update.

CAPITAL OUTLAY

The 1997-98 budget proposes \$1.17 billion in expenditures for the capital outlay program, excluding highways and K-12 schools. Funding for this program comes from a number of sources including: general obligation (GO) bonds, lease-revenue bonds, federal funds, General Fund, and various special funds.

Project funding requests were categorized as follows, and only the highest priority requests are proposed in the Governor's Budget:

Higher Education. capital outlay projects consistent with the four-year funding compact for higher education.

Correctional Public Safety. projects directly tied to capacity or correctional program requirements (e.g., correctional mental health facilities).

Other Public Safety. non-correctional projects directly linked to a public safety concern (e.g., Office of Emergency Services operations center, Department of Justice crime labs).

Fire/Life Safety. projects for code violations or other infrastructure integrity concerns which have a direct impact on the safe use of the

facility or real property (e.g., potable water systems, asbestos removal, seismic improvements).

Other Critical Infrastructure.

projects to maintain critical program performance from a structure or piece of real property (e.g., restorations to keep a facility open; facility changes driven by caseload, workload, population pressures, statutory or other mandatory changes).

Environment/Resource Stewardship.

projects to protect and enhance natural resources for public enjoyment and habitat conservation (e.g., conservancy acquisitions, wetlands restoration, watershed improvement, park projects, boat ramps).

All Other. any project not included in the priorities above.

The following tables summarize the proposed 1997-98 capital outlay program by agency (Figure CO-1), by

FIGURE CO-1

Recommended Funding by Agency

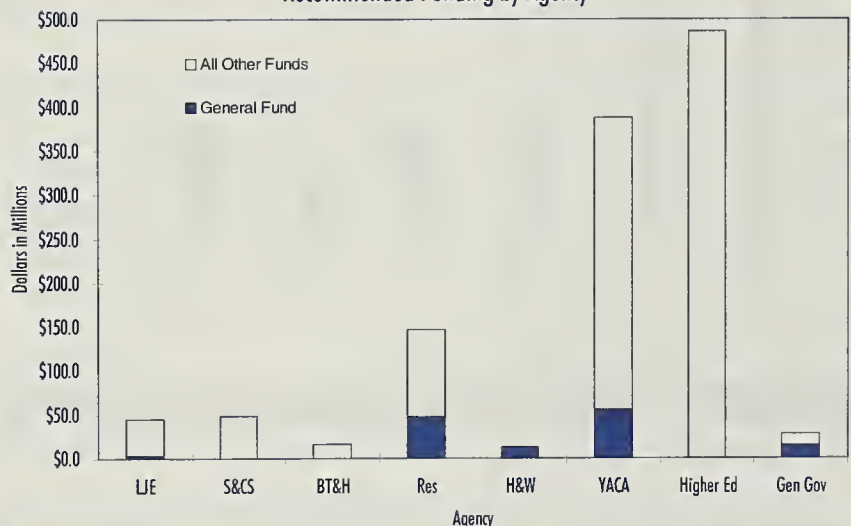


FIGURE CO-2

Recommended Funding by Project Category

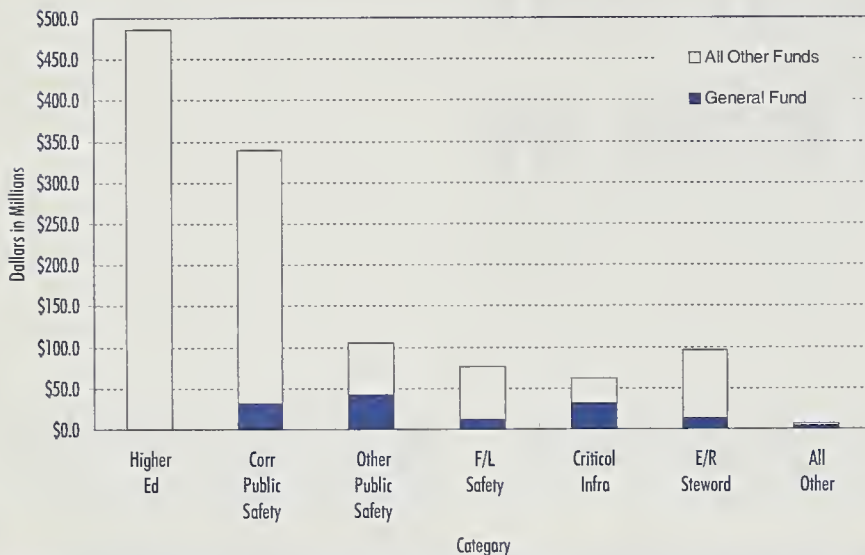
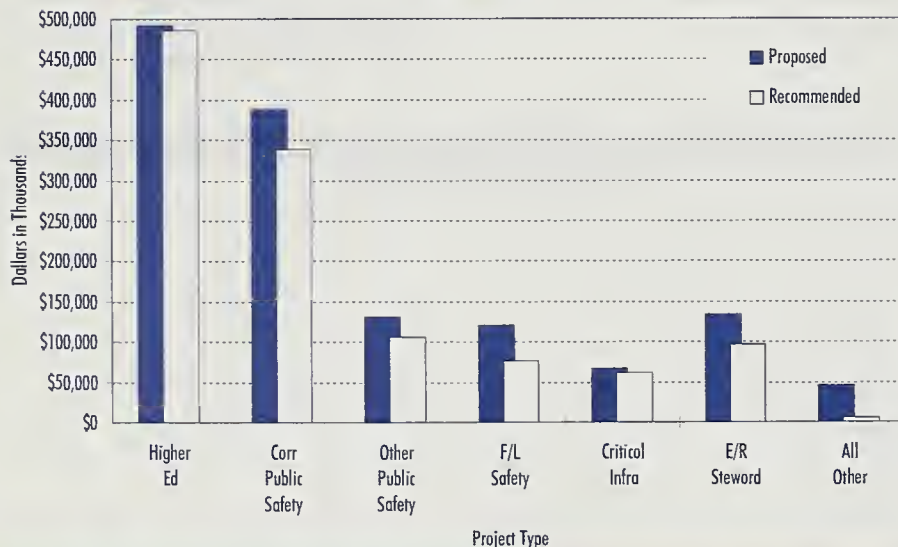


FIGURE CO-3

Proposed and Recommended Funding by Project Type (All Funds)



project category (Figure CO-2), and by fund source (Figure CO-3).

Highlights of the 1997-98 capital outlay program are as follows:

\$485.7 million existing GO bond expenditures for Higher Education.

The 1997-98 Governor's Budget reflects third-year funding from existing GO bonds for the four-year compact with higher education. Included is \$171.7 million for the University of California (UC), \$152.5 million for the California State University (CSU), \$153.2 million for the California Community Colleges (CCC) and \$8.3 million for the Hastings College of the Law.

This amount permits UC to address 31 projects at 9 campuses, placing priority on seismic, fire and life safety, and vital infrastructure projects. Examples of UC projects include: funding the equipment phase of previously approved construction projects; upgrades for seismic, fire and life safety and code deficiencies; and vital infrastructure, such as a utility system renewal at the San Diego campus. A future growth project is also included which would provide renovated space for a new program at Santa Cruz. The Governor's Budget includes \$21.6 million to fund the final state match commitment to Federal Emergency Management Administration projects for damage repair at the UCLA campus from the Northridge earthquake.

CSU's capital outlay program funds 34 projects at 22 campuses with priority on seismic, fire and life safety, and vital infrastructure projects, such as the utility upgrades at the Fresno campus. CSU's funding also includes a project to correct serious code deficiencies, two projects to address existing space

deficits, and one future growth project to provide a library information center at the Sonoma campus. CSU's program provides \$2.5 million for capital improvements for CSU Stanislaus' Stockton Regional Center for Education and Human Services.

The Budget proposes to continue UC's and CSU's flexibility to use project savings from GO-funded capital outlay projects for other high-priority items, such as beginning working drawings on approved projects or funding minor capital outlay projects. Several capital outlay needs have been met with these savings, such as an Americans with Disabilities Act project at UC Berkeley, and working drawings for the renovation/upgrades of high voltage project at CSU Fresno.

Over the last decade, UC and CSU have successfully managed nearly \$3 billion in state-funded capital outlay projects. The Administration and the segments together are seeking ways to streamline the capital project process to provide the flexibility and authority these segments need to expedite their capital projects within legislatively approved parameters of budget and scope.

The \$153.2 million for CCC addresses 93 projects at 62 campuses. Projects include program expansion, facilities for child development curriculum, correction of fire and life safety deficiencies, and equipment to complete previously funded projects. The amount proposed for CCC in 1997-98 is slightly higher than the compact commitment of \$150 million. This increase compensates for slightly reduced funding in 1996-97 which resulted from the high number of CCC projects which were in pre-construction phases.

In addition, \$8.3 million is proposed for the Hastings College of the Law

to complete renovation of a classroom building.

\$334.5 million proposed lease-revenue bond expenditures, General Fund, and federal funds for the California Department of Corrections (CDC).

The Budget recommends significant funding to begin a prison construction program which will address a projected shortfall of 34,200 beds systemwide by June 30, 2002. The Department anticipates that its share of Federal Crime Bill grant funds over the next five years will total \$265.4 million (capital outlay), which the Budget proposes to appropriate in total in 1997-98 for application against the costs of the new prison construction program. These funds would be supplemented by the General Fund and proposed lease-revenue bond authority, where necessary, to cover required state matches, federally ineligible costs, and remaining program expenses exceeding CDC's share of federal allocations. (For additional information on the Federal Crime Bill, see the Public Safety section.)

The CDC's 1997-98 capital outlay program for new prison construction includes funds for:

- ◆ Completing pre-construction work for approximately 15,000 beds at three new prisons: Kern County—Delano II, California City, and San Diego (\$38.2 million federal funds, \$9.6 million General Fund) and environmental documents for three new prisons (\$2.025 million federal funds, \$225,000 General Fund).
- ◆ Construction of 4,900 beds at Delano II in Kern County (an estimated \$249.9 million in new lease-revenue authority, offset by \$224.9 million in federal funds).

Construction funds for the prisons at California City and San Diego will be proposed through special legislation.

In addition, the following major capital outlay projects are recommended using \$31.3 million in proposed new lease-revenue bond authority: construction of Phase I of the Correctional Treatment Centers; construction of a denitrification plant at the California Institution for Men; the upgrade of a wastewater treatment plant at the Sierra Conservation Center; and replacement of substandard dormitories at the California Institution for Men.

The Budget further proposes \$28.2 million from the General Fund for: preliminary plans for the Health Care Services Delivery System; pre-construction work for Phase II of the Correctional Treatment Centers project; a new security perimeter fence at Patton State Hospital; and Americans with Disabilities Act projects, pursuant to a legal settlement.

\$53.0 million federal funds, proposed lease-revenue bond expenditures, and General Fund in the Department of the Youth Authority.

The Department's capital outlay program includes \$27.6 million in Federal Crime Bill grant funds, combined with a state match of \$3.1 million General Fund, for design and construction work to alleviate institutional crowding by adding 350 new rooms at existing facilities statewide. In addition, the Budget recommends \$8.3 million in new lease-revenue bond authority for projects including a new boiler plant at Preston School, an infirmary at El Paso de Robles School, and a new maintenance building at Fred C. Nelles School. The Budget also includes \$14.0 million from the General Fund for various security projects statewide,

adding Free Venture work space, and minor capital outlay projects.

\$32.5 million General Fund, special and federal funds, and reimbursements in the Department of Parks and Recreation (DPR).

The DPR requires \$6.8 million from the General Fund for public safety and critical infrastructure projects. An additional \$10.6 million in reimbursements and federal funds is proposed for various capital improvement and enhancement projects. Approximately \$6.8 million in restricted funds from the Off-Highway Vehicle Fund is recommended for state vehicular recreation areas, particularly to expand existing parks at Ocotillo Wells and Carnegie State Vehicular Recreation Areas. The DPR will also use \$8.3 million in special and bond funds for park projects and enhancements, including \$2.9 million for acquisitions.

\$31.9 million General Fund and proposed lease-revenue bond expenditures in the Department of Forestry and Fire Protection (CDF).

The CDF will complete 11 telecommunication towers and vaults for the State's emergency communication system with \$12.4 million in proposed new lease-revenue bond authority. In addition, the Budget includes \$19.5 million from the General Fund for public safety, fire/life safety, and critical infrastructure projects.

\$26.2 million General Fund and existing bond funds in the State Coastal Conservancy.

The Budget proposes \$7.6 million from the General Fund for the Governor's Coastal Initiative (see the "Resources and Environmental Quality" section for a program description). Also included are \$5 million

from the General Fund for the Natural Community Conservation Planning Program; \$7 million from Proposition 204 for river parkway projects on the Los Angeles River and its tributaries, and on the Napa River, the Otay River, and the Russian River; and \$4.5 million special funds, \$1.5 million federal funds, and \$650,000 reimbursements for public accessways and restoration and enhancement of wetlands, estuaries, streams, watersheds, riparian corridors, and endangered species' habitats.

\$11.7 million General Fund and reimbursements in the Department of Water Resources (DWR).

The DWR's capital outlay program includes \$8.8 million General Fund and \$2.9 million from local reimbursements for various flood control projects. The Budget also reflects the continuous appropriation of \$600,000 from Proposition 204 for delta barrier projects.

\$19.5 million of special funds and existing bond funds for the Wildlife Conservation Board.

The Budget proposes \$8.8 million from the Habitat Conservation Fund for: the Natural Community Conservation Planning Program (\$6.4 million); the Rincon Creek Culvert modification and Heenan Lake Water Right Acquisition (\$1.4 million); and the Kern County Habitat Conservation Plan (\$1 million). Also included is \$1.4 million for acquisition and development of areas in California for wildlife conservation and related recreation activities (Wildlife Restoration Fund). The Budget also recommends \$9.3 million from Proposition 204 for the River Parkway Program.

\$5 million reimbursements for the San Joaquin River Conservancy

The Conservancy will undertake \$5 million in acquisition and enhancement projects within the San Joaquin River Parkway using anticipated reimbursements.

\$5 million from existing GO bond funds in the Santa Monica Mountains Conservancy.

Using \$5 million from Proposition 204, the Conservancy will conduct acquisition, restoration, and enhancement projects on the Los Angeles River and its tributaries.

\$8.7 million special funds in the Department of Boating and Waterways (DBW).

The DBW plans \$8.7 million in recreational boating facilities projects from the Harbors and Watercraft Revolving Fund.

\$2.5 million existing bond and special funds in the Department Fish and Game.

The Budget recommends \$1.6 million from a number of special and bond funds for minor projects, \$500,000 for the Volcano Creek Fish Barrier, and \$360,000 to complete the Fish Springs Water Well, which is currently under construction.

\$3 million existing GO bond funds, special funds, and reimbursements for the California Tahoe Conservancy.

The Conservancy plans \$1.4 million in capital outlay projects for stream environmental zones and watershed restorations, using local reimbursements. The Budget also recommends the Truckee River Project, a river parkway project, funded with \$1 million from Proposition 204. In addition, the Budget includes \$536,000

in special funds for acquisition and enhancement activities. The Conservancy's capital outlay program also reflects the continuous appropriation of \$3 million from Proposition 204 for Lake Tahoe water quality projects.

\$540,000 reimbursements for the Coachella Valley Mountains Conservancy.

The Conservancy will undertake \$540,000 in acquisition projects using reimbursements.

\$22.8 million from proposed lease-revenue bonds in the Office of Emergency Services (OES).

The OES will begin construction of its Headquarters and State Operations Center in Sacramento. The existing facility has numerous inadequacies, has been cited for building code deficiencies, and lacks sufficient electrical capacity to operate during a full-scale emergency.

\$21.7 million General Fund and proposed lease-revenue bonds in the Department of Justice.

The Budget recommends \$20.7 million (\$18.5 million lease-revenue bonds, \$2.2 million General Fund) to complete replacement of the Riverside Criminalistic Laboratory and construct a consolidated crime laboratory in the Central Valley. In addition, \$1 million is proposed from the General Fund for pre-construction work to replace two additional laboratories in Redding and Santa Barbara.

\$6.7 million General Fund in the Department of Mental Health.

\$2.8 million is recommended for critical projects at Napa State Hospital, including a perimeter security fence to accommodate an increasing population of Judicial/Penal Code

patients, a new fire protection system, and improvements to the domestic water system. In addition, \$2.7 million is recommended for two projects at Patton State Hospital to begin preliminary plans for a fire and life safety project and to construct an upgraded high voltage system to provide a reliable source of electrical power for the hospital. Finally, \$1.2 million is recommended for minor capital outlay projects that are critical to the infrastructure of the various state hospitals.

\$4.6 million General Fund in the Department of Health Services (DHS).

The DHS will prepare working drawings for Phase II of its Richmond Laboratory project. The existing facility in the City of Berkeley is recognized as a serious public safety hazard. The State Fire Marshal has allowed the Department to continue occupancy under a plan of interim corrective action, but only with the understanding that the DHS will vacate the Berkeley building upon completion of its new Richmond facility.

\$1.9 million General Fund in the Department of Developmental Services.

\$500,000 is recommended for critical infrastructure projects at the Sonoma and Porterville Developmental Centers. In addition, \$1.4 million is recommended for minor capital outlay projects that are critical to the infrastructure at various developmental centers.

\$7.6 million special funds for the Department of Motor Vehicles (DMV).

The DMV will use Motor Vehicle Account funds for renovation

projects at its Sacramento headquarters, to replace the Oakland/Claremont field office, and to undertake minor capital outlay projects at its other field offices.

\$7.4 million special funds for the California Highway Patrol (CHP).

The CHP will use Motor Vehicle Account funds to purchase an area office in Banning, remodel a field office in El Cajon, and purchase equipment for a new Traffic Management Center in Sacramento.

\$989,000 special funds for the Department of Transportation.

The Budget recommends \$889,000 from the State Highway Account (SHA) for the design of the seismic retrofits of the San Diego District Office (\$412,000) and the Sacramento Headquarters Annex (\$477,000). In addition, the Budget proposes \$100,000 from SHA for the development of cost estimates for capital outlay budget change proposals.

\$48.3 million existing GO bond and other funds in the Department of General Services.

The Department will undertake the construction phase of 13 seismic correction projects for state buildings that have been identified as posing an obvious life/safety hazard in the event of an earthquake (\$47.3 million from the Earthquake Safety and Public Buildings Rehabilitation Bond Fund of 1990). In addition, the Budget proposes \$1 million from the Service Revolving Fund for renovation of the second and third floors of the Food and Agriculture Building in Sacramento. These renovations will

result in usable office space that can be leased to other state agencies.

\$26.4 million General Fund and federal funds in the Military Department.

The Military Department plans \$12.5 million to construct the new Los Angeles Armory (\$5.6 million General Fund, \$6.9 million federal funds). In addition, the Budget proposes: \$5 million from the General Fund for outdoor security lighting at various armories statewide; \$500,000 from the General Fund for a statewide armory facility study; \$4 million (\$2 million General Fund, \$2 million federal funds) to upgrade armory mechanical systems; and \$4.4 million (\$1 million General Fund and \$3.4 million federal funds) for federally funded construction projects requiring state design funds.

\$1.1 million General Fund in the Department of Food and Agriculture (DFA).

The DFA requires \$589,000 to continue pre-construction phases for the relocation of the Truckee Agricultural Border Station and \$470,000 in minor capital outlay projects to improve three other agricultural border stations.

\$500,000 special funds for the California Exposition and State Fair (CalExpo).

The Budget continues the annual appropriation of \$500,000 for CalExpo's unanticipated capital outlay projects for the State Fair.

BONDS

Bond financing is a form of long-term borrowing. The State raises money by issuing financial securities to investors, such as voter-approved general obligation bonds or legislatively approved lease-revenue bonds. Bonds finance a wide variety of projects benefiting the public: schools, prisons, highways, rail transit, parks and water treatment facilities, natural resource acquisition and rehabilitation, and state office buildings. (For specific information on bond expenditures see the various expenditure areas.)

General Obligation (GO) Bonds.

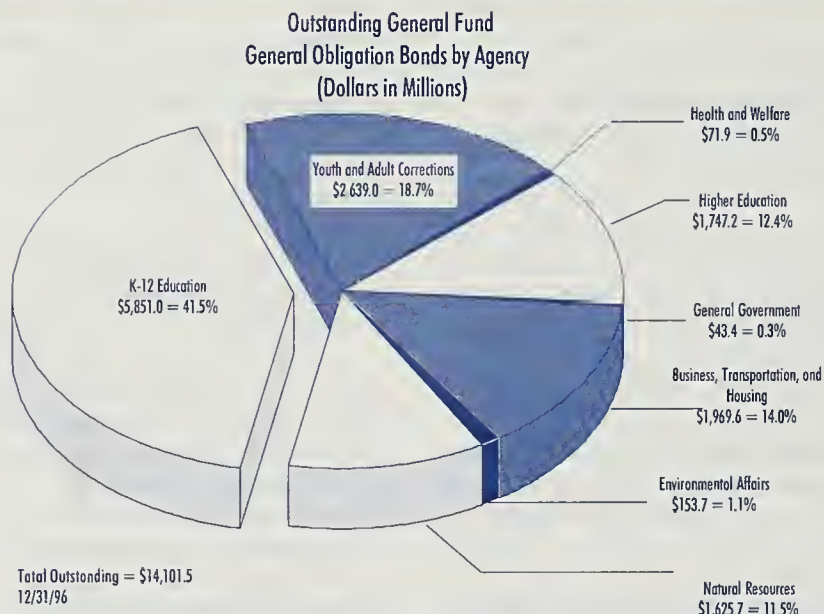
California currently owes \$14.1 billion in principal on authorized GO bonds as of the end of calendar year 1996. Figure CO-4 reflects outstand-

ing bonds by agency. The cost to the State's General Fund for the payment of interest and redemption on these bonds was \$1.911 billion in 1995-96, and is estimated to be \$1.953 billion in 1996-97 and \$1.979 billion in 1997-98 (see Figure CO-5).

Lease-Revenue Bonds. The State also uses lease-revenue bonds to supplement the GO bond program. The lease-revenue method of financing projects has been used for higher education facilities, state prison construction, general-purpose office buildings, and other types of projects whenever a lease can be created which provides a marketable security for the issuance of bonds.

Outstanding lease-revenue bonds totaled \$5.845 billion as of June 30, 1996 (see Figure CO-6) and are

FIGURE CO-4



estimated to total \$6.398 billion as of June 30, 1997, and \$7.102 billion as of June 30, 1998. The cost to the State's General Fund for lease payments (principal and interest) was \$482.8 million in 1995-96 and is estimated to be \$542.6 million for 1996-97 and \$593.3 million for 1997-98.

The most common measure of bonded indebtedness is the ratio of net tax-supported debt to General Fund revenues. Using this measure, for 1996-97, California's debt is 5.3 percent and would rise to a maximum of 5.5 percent in 1998-99 if no other bonds are authorized. This statistic is based on general obligation debt which relies on the General Fund for repayment (i.e., excludes self-liquidating GO debt), and on all lease-revenue debt.

This debt measure will rise to 5.7 percent in 1999-2000 if the bond programs proposed in the Governor's Budget are implemented (\$2.0 billion for K-12, \$200 million for the Infrastructure Bank, and \$93 million for various lease-revenue projects).

Both the bond market and the bond rating agencies consider a number of factors when coming to a conclusion about the reasonableness of a state's debt position. Thus, the same level of debt may be considered either reasonable or imprudent depending upon the State's performance over a range of factors.

FIGURE CO-5

General Fund General Obligation Debt Service Expenditures
1995-96 through 1997-98
(Dollars in Millions)

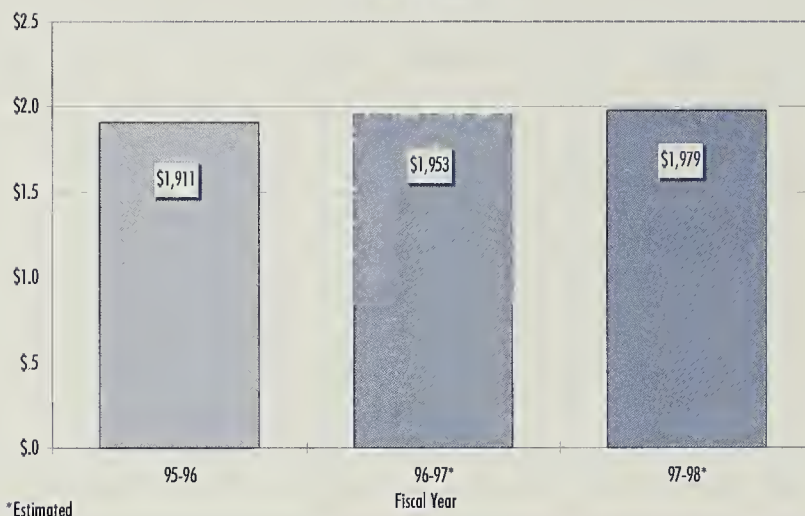
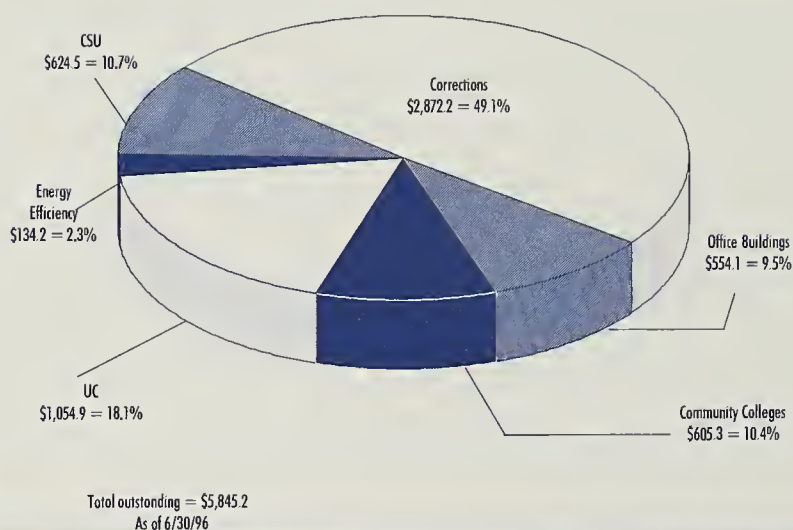
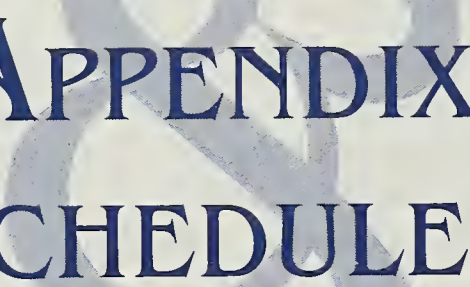


FIGURE CO-6

Outstanding Lease-Revenue Bonds
(Dollars in Millions)





APPENDIX SCHEDULES

Appendix/Schedules

Budgetary Process

Glossary of Budget Terms

Description of Fund Classifications in the State Treasury

Description of Key Schedules

Schedules:

Schedule 1 General Budget Summary

Schedule 2 Total State Spending Plan

Schedule 3A Total State Spending Plan by Generally Accepted
Accounting Principles (GAAP) Fund Classification

Schedule 3B Comparison of California's Current Fund Structure and
Recommended GAAP Fund Structure

Schedule 4 Personnel Years and Salary Cost Estimates

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Schedule 6 Summary of State Population, Employees and Expenditures

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Schedule 12A .. State Appropriations Limit Summary

Schedule 12B... Statement of Revenues to Funds Excluded from the State
Appropriations Limit

Schedule 12C .. Non-Tax Revenues in Funds Subject to the State Appropri-
ations Limit

Schedule 12D .. State Appropriations Limit, Transfers from Excluded Funds to
Included Funds

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by Agency

Budgetary Process

The Governor's Budget is the result of a process which begins more than one year before the budget becomes law. When presented to the Legislature on January 10 of each year, the Governor's Budget incorporates revenue and expenditure estimates based upon the most current information available through late December. In the event that the Governor wants to change the budget presented to the Legislature, including adjustments resulting from changes in population, caseload or enrollment estimates, the Department of Finance proposes adjustments to the Legislature during budget hearings through Finance Letters. During late spring, usually May and June, the Department of Finance submits revised expenditure and revenue estimates for both the current and budget years to the Legislature. This update process is referred to as the May Revision. The Department of Finance also prepares updates on revenues and expenditures at interim points of the fiscal year. Listed below are the key documents used in the budget process.

Title	Purpose	Prepared/Issued By	When
Budget Letters and Management Memos	Convey Administration guidelines for budget preparation to agencies and departments.	Governor/Department of Finance	April through December
Budget Change Proposal	Document which proposes to maintain or change the existing level of service.	Agencies and departments submit to Department of Finance for analysis	July through September
Governor's Budget	Governor proposed budget for the upcoming fiscal year.	Governor/Department of Finance	January 10
Governor's Budget Summary	A summary of the Governor's Budget.	Governor/Department of Finance	January 10
Budget Bill	Requests spending authorization to carry out Governor's expenditure plan (Legislative budget decision document).	Department of Finance/ Legislature	January 10
Budget Analysis	Analysis of the budget, including recommendations for changes to the Governor's Budget.	Legislative Analyst	February
May Revision of General Fund Revenues and Expenditures	Update of General Fund revenues, expenditures and reserve estimates based on the latest economic forecast.	Department of Finance	Mid-May
Budget Act	The primary annual expenditure authorization as approved by the Governor and Legislature, including a listing of Governor's vetoes.	Legislature/Governor	Late June
Final Budget Summary	Update of the individual Budget Act items with changes by the Governor's vetoes, including budget summary schedules.	Department of Finance	Late July
Final Change Book	Update of changes to the detailed fiscal information in Governor's Budget.	Department of Finance	Late July

Glossary of Budget Terms

The following budgetary terms are used frequently throughout the Governor's Budget, the Governor's Budget Summary and the annual Budget (Appropriations) Bill. Definitions are provided for terminology which is common to all publications. For definitions of terms unique to a specific program area, please refer to the individual budget presentation of interest.

Administration Program:

The general program name used by departments for an accounting of central management costs such as the Director's Office, Legal Office, Personnel Office, Accounting and Business Services functions that generally serve the whole department, i.e., indirect or overhead costs.

"Administration-distributed" is the general program name for the distribution of indirect costs to the direct program activities of a department. In most departments, all administrative costs are distributed to other programs.

Allocation:

A distribution of funds, or an expenditure limit established for an organizational unit or function.

Appropriation:

An authorization from a specific fund to a specific agency or program to make expenditures/incur obligations for a specified purpose and period of time. The Budget Act contains many appropriations, or items. These appropriation items are limited to one year, unless otherwise specified. Appropriations are made by the Legislature in the annual Budget Act and in other legislation. Continuous appropriations (see definition below) can be provided for by legislation or the California Constitution.

Augmentation:

An increase to an appropriation as provided by various control sections, Budget Bill language, or legislation.

Authorized Positions:

Those ongoing positions approved in the final budget of the preceding year less positions abolished because of continued, extended vacancy. The detail of authorized positions by classification is published in the Salaries and Wages Supplement for state organizations. Changes in authorized positions are listed following each department's bud-

get presentation in the Governor's Budget. (See Proposed New Positions.)

Balance Available:

Generally, the portion of a fund balance which is available for appropriation. It is the excess of assets of a fund over its liabilities and reserves; or commonly called amount available for appropriation. It is also the unobligated balance of an appropriation.

Baseline Budget:

A baseline budget reflects the anticipated costs of carrying out the current level of service or activities as authorized by the Legislature. It may include an adjustment for cost increases, but does not include changes in level of service over that authorized by the Legislature.

Budget, Program/Traditional:

A plan of operation for a specific period of time expressed in financial terms. A *program budget* expresses the operating plan in terms of the costs of activities to be undertaken to achieve specific goals and objectives. A *traditional budget* expresses the plan in terms of the costs of the goods or services to be used to perform specific functions.

The Governor's Budget is primarily a program budget. However, a summary of proposed expenditures for goods and services (Summary by Object) is included for State Operations.

Budget Bill/Act:

The initial Budget Bill is prepared by the Department of Finance and is submitted to the Legislature in January accompanying the Governor's Budget. It is the Governor's proposal for spending authorization for the subsequent fiscal year. The Constitution requires the Legislature to pass the Budget Bill and forward it by June 15 to the Governor for signature. After signature by the Governor, the Budget Bill becomes the Budget Act. The Budget Act is the main legal authority to spend or obligate funds.

Budget Change Proposal (BCP):

A BCP is a proposal to change the level of service or funding sources for activities authorized by the Legislature, or to propose new program activities not currently authorized.

Budget Year (BY):

The next fiscal year beginning July 1 and ending June 30 for which the Governor's Budget is submitted. The year following the current fiscal year.

Capital Outlay (CO):

The expenditure of funds to acquire land or pay the cost of planning and construction of new buildings, or additions to and modification of existing buildings, and the equipment which is related to such construction.

Carryover Appropriations:

The balance of appropriations available for expenditure in years subsequent to the year of enactment.

Category:

A grouping of related objects of expenditure (goods or services), such as Personal Services, Operating Expenses and Equipment, and Special Items of Expense.

Changes in Authorized Positions:

A schedule included in each budget presentation in the Governor's Budget which reflects personnel staffing changes made subsequent to the adoption of the current year budget (transfers, positions established and selected reclassifications). It also includes proposed new positions and reductions of positions for the budget year.

Character of Expenditure:

A classification identifying the purpose of the expenditures. (See State Operations, Local Assistance or Capital Outlay.)

Codes, Uniform:

A set of codes, used in all major fiscal systems of California state government. These codes identify organizations, programs, funds, appropriation structures, receipts and line-item objects of expenditure. The Uniform Codes Manual, published by the Department of Finance, lists all such uniform codes. (See Section 1.50 of the Budget Act for an explanation of the codes used for Budget Act appropriation items.)

Continuous Appropriation:

Amount, specific or estimated, available each year under a permanent constitutional or statutory expenditure authorization which exists from year to year without further legislative action. The amount available may be a specific, recurring sum each year; all or a specified portion of the proceeds of specified revenues which have been dedicated permanently to a certain purpose; or whatever amount is required for the purpose as determined

by formula—such as school apportionments.

Control Sections, Budget Act:

The Budget Act is divided into sections. Section 1.00 establishes a citation for the legislation. Section 1.50 provides a description of the format of the act. Section 2.00 contains the itemized appropriations. Sections 4.00 through 99.50 are general sections, also referred to as control sections, which generally provide additional authorizations or place additional restrictions on one or more of the itemized appropriations contained in Section 2.00.

Cost of Living Adjustments (COLAs).**Statutory/Discretionary:**

Increases provided in state-funded programs which include periodic adjustments predetermined in state law (statutory), e.g., K-12 education apportionments; and adjustments which may be established at optional levels (discretionary) by the Legislature each year.

Current Year (CY):

A term designating the operations of the present fiscal period, as opposed to the past or future periods (i.e., the time period we are in now). For the State, the fiscal year begins July 1 and ends the following June 30.

Deficiency:

A lack or shortage of (1) money in a fund, (2) expenditure authority due to an insufficient appropriation or (3) expenditure authority due to a cash problem, e.g., reimbursements not received on a timely basis.

Encumbrance:

An obligation placed on an appropriation to pay for goods or services which have been ordered by means of contracts, salary commitments, etc., but not yet received.

Expenditure:

Generally, this term designates the amount of an appropriation used for goods and services whether paid or unpaid, including expenses, provisions for debt retirement not reported as a liability of the fund from which retired, and capital outlays where the accounts are kept on an accrual basis or a modified accrual basis. Where the accounts are kept on a cash basis, the term designates only actual cash disbursements.

Enrollment, Caseload, & Population (ECP):

Adjustments that occur due to increases/decreases in enrollment for the educational segments, caseload adjustments for programs such as Medi-Cal and welfare programs, and population

adjustments for state hospitals and youth and correctional facilities.

Federal Funds (FF):

In state budget usage, this term describes all funds received directly from an agency of the federal government but not those received through other state departments. Generally, state departments must initially deposit such federal funds in the Federal Trust Fund, a fund in the State Treasury.

Final Budget:

The final budget is the Governor's Budget as amended by action taken on the Budget Bill. A Final Change Book is published by the Department of Finance after enactment of the Budget Act to reflect the changes made by the Legislature in their review of the Budget Bill and by the Governor by power of line item veto. It includes a detailed list of changes by item number.

Finance Letters:

Proposals made by the Director of Finance to the chairpersons of the committees in each house of the Legislature which consider appropriations to amend the Budget Bill and Governor's Budget from that submitted January 10 to reflect a revised plan of expenditure for the Current or Budget Year.

Fiscal Year (FY):

A 12-month state accounting period which varies from the calendar year and the federal fiscal year. In California State government, the fiscal year runs from July 1 through the following June 30. It is the period during which obligations are incurred, encumbrances are made and appropriations are expended. The Governor's Budget presents three years of detailed fiscal data for the past, current and budget years.

The state fiscal year is often referenced by the first calendar year of the fiscal year, e.g., "'96" or "1996" means the 1996-97 fiscal year. By contrast, the federal fiscal year is referenced by the last calendar year of the fiscal year, e.g., "'97" or "1997" means the 1996-97 fiscal year, and lasts from October 1, 1996 through September 30, 1997.

Fund:

A legal entity that provides for the segregation of moneys or other resources in the State Treasury for specific activities or obligations in accordance with specific restrictions or limitations. A separate set of accounts must be maintained for each fund to show its assets, liabilities, reserves and fund balance, as well as its income and expenditures. The assets of a fund may also be placed into separate accounts to provide for limitations on specified

fund income or expenditures.

(See "Description of Fund Classifications in State Treasury," which follows in this volume.)

Fund Balance:

Excess of the assets of a fund over its liabilities. (See "Balance Available.")

Fund Condition Statement:

A statement included in the Governor's Budget for the General Fund, special funds, special accounts in the General Fund, and specific bond funds and nongovernmental cost funds to disclose beginning reserves, revenues and transfers, expenditures, fund balance, and ending reserves.

General Fund (GF):

The General Fund is the predominant fund for financing state government programs. It is used to account for revenues which are not specifically designated to be accounted for by any other fund. The primary sources of revenue for the General Fund are the personal income tax, sales tax and bank and corporation taxes. A complete itemization of the revenue sources are listed in Summary Schedule 8. The General Fund is used as the major funding source for education (K-12 and higher education), health and welfare programs, youth and adult correctional programs and tax relief. Summary Schedule 9 provides a listing of expenditures for the General Fund.

Intraschedule (Category) Transfer:

A control section of the Budget Act authorizes the Department of Finance to augment or reduce any program, project, or function by transfer from any other program, or project or function within the same appropriation.

Augmentations of personal services and operating expenses and equipment categories generally cannot exceed, in the aggregate, 20 percent of the amount scheduled. Lower limits exist for support appropriations which exceed \$2,000,000. (See Category.)

Item:

(See "Appropriation.")

Governmental Cost Funds:

(See "Special Funds.")

Limited-Term Positions:

A limited-term position is any position which has been authorized for a specific length of time with a set termination date. Limited-term positions may be authorized during the budget enactment process

or in transactions approved by the Department of Finance.

Line-Item:

(See ``Objects.'')

Local Assistance:

Expenditures made for the support of local government activities.

Local Mandates:

(See ``State-Mandated Local Program.'')

May Revision:

An annual update to the Governor's proposed January budget containing revised General Fund revenues, and specified expenditures for the Governor's Budget. The Department of Finance is required to submit its May Revision to the Legislature by May 14.

Merit Salary Adjustment:

A cost factor resulting from the periodic increase in salaries paid to personnel occupying authorized positions. Personnel generally receive a salary adjustment of 5 percent per year to recognize proficiency in the work performed up to the upper salary limit of the classification.

Minor Capital Outlay:

Minor Capital Outlay consists of construction projects or equipment acquired to complete a construction project estimated to cost less than \$250,000.

Objects (line-items):

A subclassification of expenditures based on type of goods or services. For example, the Personal Services category includes the objects of Salaries and Wages and Staff Benefits. These may be further subdivided into line items such as State Employees' Retirement, Workers' Compensation, etc. Objects do not reflect a function or purpose to be served by the expenditure. A Summary by Object is provided for each department's budget in the Governor's Budget for State Operations and Local Assistance, where applicable. The Department of Finance publishes a Uniform Codes Manual which reflects the standard line-item objects of expenditure.

Past Year (PY):

The fiscal year just completed. (See Fiscal Year.)

Personnel Years:

The actual or estimated portion of a position expended for the performance of work. For example, a full-time position which was filled by an employee

for half of a year would result in an expenditure of 0.5 personnel years.

Positions:

(See ``Authorized Positions.'')

Programs:

The activities of an organization grouped on the basis of common objectives. Programs are comprised of elements, which can be further divided into components and tasks (the lowest defined program activity).

Proposed New Positions:

A request for an authorization for the employment of additional people for the performance of work. Proposed new positions may be for limited time periods (limited-term) and for full or less than full-time. Proposed new positions may be for an authorization sufficient to employ one person, or for a sum of funds (blanket) from which several people may be employed.

Proposition 98:

An initiative passed in the November 1988, and amended in the June 1990, election which provides a minimum funding guarantee for school districts, community college districts, and other state agencies that provide direct elementary and secondary instructional programs for Kindergarten through grade 14 (K-14) beginning with fiscal year 1988-89. Also used to refer to any expenditures which fulfill the guarantee.

Reappropriation:

The extension of the availability of an appropriation for expenditure beyond its set termination date, usually for the same purpose. Reappropriations are usually authorized by the Legislature for one year extensions at a time.

Receipts:

Describes an increase in the assets of a fund including revenues as well as transfers from other funds, federal receipts and fund reimbursements.

Reconciliation With Appropriations:

A statement in each budget presentation which sets forth the source and amount of appropriations, by fund, available to the department and the disposition of such appropriated funds. Statements are presented by fund for each character of expenditure, i.e., State Operations, Local Assistance and Capital Outlay.

Reimbursements:

Amount received as a repayment of the cost of work, or service performed, or of other expendi-

tures made for or on behalf of another governmental unit or department. Reimbursements represent the recovery of an expenditure. Reimbursements are available for expenditure in accordance with the budgeted amount (scheduled in an appropriation).

Reserve:

An amount set aside in a fund balance to provide for expenditures from the unencumbered balances of continuing appropriations, economic uncertainties, future apportionments, pending salary or price increase appropriations and appropriations for capital outlay projects.

Revenue:

The addition of cash or other current assets of governmental costs funds (receipts) which do not increase any liability or reserve and do not represent the recovery of an expenditure, i.e., reimbursements. Generally, revenue is derived from taxes, licenses and fees or investment earnings. Revenues are deposited in a fund for future appropriation.

Reversion:

The return of the unused portion of an appropriation to the fund from which the appropriation was made. The undisbursed portion of an appropriation reverts two years (four years for federal funds) after the last day of availability for encumbrance. The Budget Act often provides for the reversion of unused portions of appropriations when such reversion is to be made prior to the statutory limit.

Salary Savings:

Salary savings reflects personnel cost savings resulting from vacancies and downward reclassifications as a result of turnover of employees. The amount of budgeted salary savings is an estimate generally based on past experience.

Special Fund for Economic Uncertainties:

Statutes and the control sections of the Budget Act provide for the establishment of a Special Fund for Economic Uncertainties in the General Fund and a reserve for economic uncertainties in each special fund to provide for emergency situations.

Special Funds:

Special Funds is a generic term used for "governmental cost funds" other than the General Fund. Governmental cost funds generally are commonly defined as those funds used to account for revenues from taxes, licenses and fees where the use of such revenues is restricted by law for particular functions or activities of government. Examples of Special Funds are the transportation funds, fish and game funds and the professions and vocations

funds. Revenues, expenditures and the condition of Special Funds are summarized in Schedules 8, 9 and 10 in the Governor's Budget Summary.

Staff Benefits:

An object of expenditure for the state costs of contributions for employees' retirement, OASDI, health and welfare benefits, workers' compensation, unemployment insurance, industrial disability leave benefits and nonindustrial disability leave benefits.

State Appropriations Limit (SAL):

The State Appropriations Limit is defined in Section 8 of Article XIII B of the California Constitution. It was enacted by the passage of Proposition 4 at the November 6, 1979, general election. This initiative imposed a limit on the annual growth in the level of certain appropriations from tax proceeds. The growth in the appropriations limit is calculated using the prior year's limit, adjusted for changes in the cost of living and the change in population. Other adjustments may be made for such reasons as the transfer of services from one governmental entity to another.

State-Mandated Local Program:

State reimbursements to local governments for the cost of activities required by legislative and executive acts. This requirement was established by Chapter 1406, Statutes of 1972 (SB 90) and further ratified by the adoption of Proposition 4 (a constitutional amendment) at the November 6, 1979, general election. (See "Governor's Budget: 8885 Commission on State Mandates.")

State Operations:

Expenditures for the support of state government, exclusive of capital outlay and expenditures for local government activities.

Summary by Object:

A summary of actual past year and estimated current and budget year expenditures for goods and services for each organization presented for State Operations, Local Assistance and Capital Outlay expenditures.

Summary of Program Requirements:

At the front of each departmental budget is a Summary of Program Requirements. It presents the various departmental programs by title, dollar totals, personnel years, and source of funds for the past, current and budget years.

Summary Schedules:

The Governor's Budget Summary includes schedules which summarize state revenues, expenditures

and other fiscal and personnel data for the past, current and budget years.

Tax Expenditures:

Subsidies provided through the taxation systems.

Transfers:

As reflected in fund condition statements, transfers reflect the movement of resources from one fund

to another based on statutory authorization or specific legislative transfer authority.

Unencumbered Balance:

The balance of an appropriation after encumbrances (balances on Controller's records after accruals are posted).

Description of Fund Classifications

in the Treasury

Revenues and expenditures in the program budget and the summary schedules reflect the activities of many separate funds. Summary Schedule 10 provides a complete list of governmental cost funds. The Index lists those funds for which Fund Conditions are included in the budget and references the page number. General Fund and Special Fund expenditures represent the cost of government and are included in budget totals, and along with selected Bond Funds, are included in the overall expenditure totals. In 1981-82 the State of California began to change classification of funds in the state treasury to conform to Generally Accepted Accounting Principles as set forth by the National Council on Governmental Accounting. Schedule 3 includes a description of these changes and shows their effect on the budget totals.

General Fund. Used to account for all revenues and activities financed therefrom which are not required by law to be accounted by any other fund. Most state expenditures are financed from the General Fund. Normally, the only difference between the General Fund and the other governmental costs funds is the restriction placed on the use of the other governmental cost funds.

Special Funds. Consists of governmental cost funds used to account for taxes and revenues which are restricted by law for particular functions or activities of government. The funds included in these classifications are primarily for the regulation of businesses, professions and vocations; transportation; law enforcement; and capital outlay.

General Fund Special Accounts. Legislatively created accounts or dedicated revenues within the General Fund. Moneys credited to such accounts may be used only for the purposes specified in the legislation. As a result of Chapter 942, Statutes of 1977, these special accounts are treated as special funds, and revenues and expenditures are included in the special fund totals in the summary schedules of the budget. They are therefore excluded from the General Fund unrestricted revenues, expenditures and reserves.

Other Funds. Expenditures from funds which do not represent a cost of government are not in-

cluded in the budget totals. They consist of moneys which were derived from sources other than general or special taxes, licenses, fees or other state revenues. Included are receipts from the Federal Government, funds created for accounting purposes, receipts from sale of lands, or moneys held in trust. These funds are segregated into the following classifications:

Working Capital and Revolving Funds. Funds created to finance internal service activities rendered by a state agency to other state agencies or to local governments for which charges are made at cost. The charges are reflected as expenditures in the budget of the agency receiving the commodity or service.

Public Service Enterprise Funds. Self-supporting activities operated by the State for the benefit of the public. Funds are derived from charges to those who use the service and no support is derived from taxes, licenses or other state revenues.

Bond Funds. Used to account for the receipt and disbursement of proceeds from the sale of bonds and to finance projects for which the bonds were authorized. Expenditures are considered a cost of government at the time interest payments are made and as the bonds are redeemed.

Retirement Funds. Moneys held in trust by the State for retirement benefit payments.

Trust and Agency Funds. Funds holding moneys in trust pending disbursements to trustors, moneys received from the Federal Government to be expended for specific purposes, and other funds which do not derive their sources from taxes or other state revenues, or are in the nature of transitory funds created for the convenience of accounting receipts or disbursements which are not necessarily revenues or expenditures.

Selected Bond Funds. Selected bond funds are General Obligation Bond funds which are nonself-liquidating. Included in the overall expenditure totals of Schedules 1 and 9 for budget purposes are expenditures from the selected bond funds. The following page provides a complete listing of all selected bond funds.

<i>Fund No.</i>	<i>Fund Name</i>	<i>Fund No.</i>	<i>Fund Name</i>
0405	Bay-Delta Agreement Subaccount ¹	0658	Higher Education Capital Outlay Bond Fund of 1996
0732	Beach, Park, Recreational and Historical Facilities Fund of 1964, State	0714	Home Building and Rehabilitation Fund
0743	Bond Proceeds Account, State School Building Lease-Purchase Fund	0720	Lake Tahoe Acquisition Fund
0415	CALFED Subaccount ¹	0443	Lake Tahoe Water Quality Subaccount ¹
0651	California Infrastructure and Economic Development Bank Fund	0794	Library Construction and Renovation Fund, California
0404	Central Valley Project Improvement Subaccount	0543	Local Projects Subaccount ¹
0703	Clean Air and Transportation Improvement Fund	0723	New Prison Construction Fund
0740	Clean Water Bond Fund of 1984, State	0721	Parkland Fund of 1980
0737	Clean Water and Water Conservation Fund, State	0722	Parkland Fund of 1984
0764	Clean Water and Water Reclamation Fund of 1988	0756	Passenger Rail Bond Fund of 1990
0730	Coastal Conservancy Fund of 1984, State	0751	Prison Construction Bond Fund of 1990
0711	County Correctional Facility Capital Expenditure Fund of 1986	0724	Prison Construction Fund of 1984
0796	County Correctional Facility Capital Expenditure and Youth Facility Bond Fund of 1988	0746	Prison Construction Fund of 1986
0409	Delta Levee Rehabilitation Subaccount ¹	0747	Prison Construction Fund of 1988
0423	Delta Tributary Watershed Subaccount ¹	0659	Public Safety Bond Fund of 1996 (Proposed)
0422	Drainage Management Subaccount ¹	0728	Recreation and Fish and Wildlife Enhancement Fund
0788	Earthquake Safety and Housing Rehabilitation Bond Account, Housing Rehabilitation Loan Fund, California	0545	River Parkway Subaccount ¹
0768	Earthquake Safety and Public Building Rehabilitation Fund of 1990	0544	Sacramento Valley Water Management and Habitat Project Subaccount ¹
0445	Feasibility Projects Subaccount ¹	0707	Safe Drinking Water Fund, California
0748	Fish and Wildlife Habitat Enhancement Fund	0793	Safe Drinking Water Fund of 1988, California
0547	Flood Control and Prevention Account ¹	0424	Seawater Intrusion Control Subaccount ¹
0710	Hazardous Substance Cleanup Fund	0653	Seismic Retrofit Bond Fund of 1996
0782	Higher Education Capital Outlay Bond Fund	0418	Small Communities Grant Subaccount ¹
0785	Higher Education Capital Outlay Bond Fund of 1988	0413	South Delta Barriers Subaccount ¹
0791	Higher Education Capital Outlay Fund, June 1990	0417	State Revolving Fund Loan Subaccount ¹
0705	Higher Education Capital Outlay Bond Fund of 1992	0742	Urban and Coastal Park Fund, State
		0446	Water Conservation and Groundwater Recharge Subaccount ¹
		0790	Water Conservation Fund of 1988
		0744	Water Conservation and Water Quality Bond Fund of 1986
		0419	Water Recycling Subaccount ¹
		0786	Wildlife, Coastal and Park Land Conservation Fund of 1988, California
		0787	Wildlife and Natural Areas Conservation Fund (subfund of 0786)

¹ Account or subaccount of Safe, Clean, Reliable Water Supply Fund

Description of Key Schedules

The Budget Summary includes summary information in various schedules. The following schedules are those which may be the most useful for the public, private sector, or other levels of government.

SCHEDULE 1. *General Budget Summary*—Provides for a summary of total statewide revenues and expenditures for the General Fund and Special funds plus expenditure totals for the Selected Bond funds.

SCHEDULE 2. *Total State Spending Plan*—Provides in a single schedule the State's total spending plan. In addition to the General Fund, Special funds, and Selected Bond funds, expenditures from Nongovernmental Cost funds and Federal funds are shown.

SCHEDULE 3A. *Total State Spending Plan by Generally Accepted Accounting Principles (GAAP) Fund Classification*—Provides in a single schedule the State's Total Spending Plan (Schedule 2) rearranged into GAAP Fund Classifications.

SCHEDULE 3B. *Comparison of California's Current Fund Structure and Recommended GAAP Fund Structure*—Provides a comparison of California's Current Fund Structure to recommended GAAP Fund Classifications.

SCHEDULE 4. *Personnel Years and Salary Cost Estimates*—Provides personnel year data and corresponding dollar amounts by functional breakdown and position classifications. This schedule reflects net data after salary savings.

SCHEDULE 5. *Positions and Salary Cost Estimates*—Provides position and personnel year data and corresponding dollar amounts by functional breakdown. This schedule reflects both gross data before salary savings and net totals salaries and wages.

SCHEDULE 6. *Summary of State Population, Employees, and Expenditures*—Provides historical data of State population, employees and expenditures.

SCHEDULE 7. *General Fund: Statement of Financial Condition*—Provides the financial condition of the General Fund as of June 30 from the most recently available information from the State Controller.

SCHEDULE 8. *Comparative Statement of Revenues*—Provides General Fund and Special fund revenue detailed amounts within three main break-

downs of: (1) major taxes and licenses, (2) other revenues, and (3) transfers.

SCHEDULE 9. *Comparative Statement of Expenditures*—Provides a listing of expenditures in the order of printing of individual budgets from the General Fund, Special funds, selected Bond funds and Federal funds for State Operations, Local Assistance and Capital Outlay.

SCHEDULE 10. *Summary of Fund Condition Statements*—Provides for the General Fund and each Special fund the beginning reserve, income, expenditures, transfers, and ending reserve for each of the three fiscal years displayed in the Governor's Budget.

SCHEDULE 11. *Statement of General Obligation Bond and Commercial Paper Debt of the State of California*—Provides a listing of all general obligation bonds including maturity dates, authorized amount of bond issues, amounts of unissued bonds, redemptions and outstanding issues. It also provides a listing of authorized and outstanding commercial paper which is issued in-lieu of general obligation bonds.

SCHEDULE 12A. *State Appropriations Limit Summary*—Provides a summary of Schedules 12B through 12E and calculates the State Appropriations Limit (SAL), total SAL Appropriations and the Appropriation Limit Room or Surplus.

SCHEDULE 12B. *Revenues to Excluded Funds*—Provides a listing of revenues to special funds that are not included in the calculation of total appropriations subject to the State Appropriations Limit.

SCHEDULE 12C. *Non-tax Revenues in Funds Subject to Limit*—Provides a total of nontax revenues for General and Special funds deposited in funds that are included in the calculation of total appropriations subject to the State Appropriations Limit.

SCHEDULE 12D. *State Appropriations Limit, Transfer from Excluded Funds to Included Funds*—Provides transfers between funds that are included in calculating the appropriations subject to the State Appropriations Limit.

SCHEDULE 12E. *Expenditures Excluded from Limit by Agency*—Provides a distribution of actual gross appropriations that are excluded from appropriations subject to the State Appropriations Limit.

SCHEDULE 1
GENERAL BUDGET SUMMARY ¹
(In Thousands)

1995-96 ²	Reference to Schedule	General Fund	Special Funds	Budget Expenditure Totals	Selected Bond Fund Expenditures	Expenditure Totals Including Bonds
Prior year resources available	10	\$807,444	\$1,847,466			
Revenues and transfers	8	46,296,094	12,969,977			
Loan Repayments	-	1,025,000	-			
Expenditures	9	45,393,091	12,540,570	\$57,933,661	\$1,936,694	\$59,870,355
Fund Balance ⁵	10	\$685,447	\$2,276,873			
Special Fund for Economic Uncertainties ³		234,626	-			
Reserves for Economic Uncertainties ³		-	2,276,873			
Reserve for Liquidation of Encumbrances ⁴		450,821	-			
1996-97						
Prior year resources available	10	\$685,447	\$2,276,873			
Revenues and transfers	8	48,405,466	13,540,859			
Expenditures	9	48,443,086	13,592,688	\$62,035,774	\$2,204,233	\$64,240,007
Fund Balance ⁵	10	\$647,827	\$2,225,044			
Special Fund for Economic Uncertainties ³		197,006	-			
Reserves for Economic Uncertainties ³		-	2,225,044			
Reserve for Liquidation of Encumbrances ⁴		450,821	-			
1997-98						
Prior year resources available	10	\$647,827	\$2,225,044			
Revenues, transfers and other additions ...	8	50,657,473	14,074,809			
Expenditures	9	50,300,984	14,343,265	\$64,644,249	\$1,993,547	\$66,637,796
Fund Balance ⁵	10	\$1,004,316	\$1,956,588			
Special Fund for Economic Uncertainties ³		553,495	-			
Reserves for Economic Uncertainties ³		-	1,956,588			
Reserve for Liquidation of Encumbrances ⁴		450,821	-			

¹ The General Budget Summary includes the revenues and expenditures of all state funds that reflect the cost of state government and selected bond fund expenditures. The transactions involving other nongovernmental cost funds are excluded. The amounts included in this schedule for expenditures and revenues may not agree with those shown in Schedules 8, 9 and 10 due to rounding.

² Due to lack of time for complete reconciliation to the State Controller's preliminary fiscal data for their annual report, the amounts reflected in the 1995-96 fiscal year do not agree with the data which will be included in the State Controller's Annual Report.

³ The Special Fund for Economic Uncertainties and the Reserves for Economic Uncertainties provide sources of funds to meet obligations of the General Fund and Special Funds in the event of a decline in revenues or an unanticipated increase in expenditures.

⁴ The Reserve for Liquidation of Encumbrances represents an amount which will be expended in the future for state obligations for which goods and services have not been received. This Reserve treatment is consistent with accounting methodology prescribed by Generally Accepted Accounting Principles (GAAP) and Chapter 1286, Statutes of 1984 (AB 3372) which requires the State to conform its fiscal management system to GAAP.

⁵ The Fund Balance for the General Fund includes amounts for unencumbered balances of continuing appropriations at the end of the 1995-96, 1996-97 and 1997-98 fiscal years of \$175,062; \$176,215; and \$24,335 (in thousands) respectively.

Schedule 2 TOTAL STATE SPENDING PLAN

This Schedule is included for informational purposes to show in one place the expenditures of all funds which are accounted for by the State.

A basic premise in a consolidation such as this is that the State is the financial unit and individual funds are subsidiary units to the State. This is similar to financial units in the private sector in which diversified commercial corporations with several subsidiaries report their operation on a consolidated basis—but is a contrast to traditional governmental accounting, which has held that the individual funds are the financial units and should not be consolidated with other funds or types of funds. A total consolidation presents both theoretical and practical problems because of the individual nature of each fund. In essence, each fund is a separate fiscal and legal entity that operates under the specific legal provisions that created it. Examples of problems which may arise from an unqualified consolidation are: (1) funds are accounted for in a different manner, (2) duplication of expenditures result, (3) expenditures from non-state funds are included, and (4) expenditures are included for quasi-state operations such as Workers' Compensation and for payment of retirement benefits for other governmental units.

In order to minimize misinterpretations, this Schedule is displayed in two parts. Part A summarizes those expenditures from funds traditionally included in budget totals; Part B summarizes expenditures from the other funds which are collectively identified as nongovernmental cost funds. Schedule 2, in either part, does not include reimbursements received from the public or other levels of government, as these are deducted from State expenditures.

TOTAL STATE SPENDING PLAN—PART A GOVERNMENTAL COST, SELECTED BOND FUNDS, AND FEDERAL FUNDS

As stated above, Part A summarizes expenditures from funds which are traditionally included as part of State expenditure summaries in the Governor's Budget and other State financial reports. The major portion of the expenditures shown in Part A is for the General Fund and the various special funds, which are commonly referred to as "governmental cost funds". This term is used because these funds are used to account for moneys which are derived from general and special taxes, licenses, fees, or other revenue sources to provide financing for State activities which are for the general purposes of State government.

The selected bond funds are included in Part A because of the historical legislative interest in showing these expenditures in budget totals. It should be noted that there is a duplication in showing these expenditure amounts from bond proceeds because the expenditures are included both when bond proceeds are spent and when debt service is paid.

The Federal funds have also been included in Part A because of increasing interest in the level of the State's expenditure of Federal funds. The detail of expenditures by department for the General Fund, special funds, selected bond funds and Federal funds is shown in Schedule 9.

Funds	1995-96*	1996-97*	1997-98*
GOVERNMENTAL COST FUNDS			
GENERAL FUND	45,393,091	48,443,086	50,300,984
SPECIAL FUNDS	12,540,570	13,592,688	14,343,265
*TOTAL FUND CLASSIFICATION GOVERNMENTAL COST FUNDS.....	\$57,933,661	\$62,035,774	\$64,644,249
SELECTED BOND FUNDS			
SELECTED BOND FUNDS.....	\$1,936,694	\$2,204,233	\$1,993,547
*TOTAL FUND CLASSIFICATION SELECTED BOND FUNDS	\$1,936,694	\$2,204,233	\$1,993,547
FEDERAL FUNDS			
FEDERAL FUNDS.....	\$30,339,648	\$32,011,257	\$32,616,305
*TOTAL FUND CLASSIFICATION FEDERAL FUNDS	\$30,339,648	\$32,011,257	\$32,616,305
TOTAL.....	\$122,244,225	\$129,034,766	\$133,934,458

Total State Spending Plan—Part B Nongovernmental Cost Funds

Nongovernmental cost funds are used to account for moneys which are derived from sources other than general or special taxes, licenses, fees, or other State revenues. Although Federal funds and bond funds are classified as nongovernmental cost funds, they are included in Part A for reasons cited therein. The nongovernmental cost funds shown in Part B are segregated into the following classifications.

PUBLIC SERVICE ENTERPRISE FUNDS

Public Service Enterprise Funds are used to account for the transactions of self-supporting enterprises which render services for a charge primarily to the general public.

Activities which are accounted through Public Service Enterprise Funds include toll bridges, harbor facilities, disability insurance, college housing, and veterans farm and home loan financing. Bond funds and sinking funds related to a public service enterprise are included in this classification.

Public Service Enterprise Funds differ from Working Capital and Revolving Funds in that, in the latter, fees for services rendered are largely from other State agencies or local governments.

It should be noted that expenditures shown below from the Compensation Insurance Fund do not include benefit payments to State employees because the State is self-funded. The expenditures shown are benefits paid from funding provided through insurance premiums and therefore are not true State costs.

WORKING CAPITAL AND REVOLVING FUNDS

Working Capital and Revolving Funds are used to account for the internal service activities rendered by a State agency to other State agencies or to local governments. Activities which are accounted through Working Capital and Revolving Funds include

centralized purchasing for stores, consolidated data center services, printing, architectural services, manufacturing, surplus money investment, payroll disbursement, automotive management, and building operations.

Working Capital and Revolving Funds differ from the Public Service Enterprise Funds, which render services primarily to the general public. To the extent that services are provided to other State agencies, expenditures shown in Working Capital and Revolving Funds are duplicative of expenditures shown in the agencies.

BOND FUNDS

Bond Funds are used to account for the receipt and disbursement of bond proceeds. They do not account for bond retirement since the liability created by the sale of bonds is not a liability of these funds. Bonds are retired and the interest obligations thereon are paid through the provisions specified in the bond act.

Bond Funds related to a public service enterprise are included in the Public Service Enterprise Fund classification.

RETIREMENT FUNDS

Retirement Funds are used to account for employer and member contributions received by various retirement systems, the investment of these moneys, annuity payments, refunds to members, and other receipts and disbursements. The amounts shown below reflect both administrative costs and benefits paid to annuitants. For the Public Employees' Retirement Fund and the Teachers' Retirement Fund, funding includes non-state sources and expenditures therefrom are not true State costs. Also, costs funded from amounts transferred into these funds from other State agencies are duplicative of expenditures shown in the agencies.

OTHER NONGOVERNMENTAL COST FUNDS

For selected programs, the State budget has traditionally included funding provided by county funds and university funds for informational purposes. Because of inclusion in the budget, these expenditures are shown in Schedule 2. The balance of funds shown in this classification are for Trust and Agency Funds which are used to account for moneys and properties that are received from other than Federal sources and which are held and disbursed from the State Treasury by the State as trustee or custodian.

The following provides detail for the significant funds and amounts which comprise the various categories of Nongovernmental Cost Funds:

Funds	1995-96* Amount	1996-97* Amount	1997-98* Amount
PUBLIC SERVICE ENTERPRISE FUNDS			
Housing Finance Fund, California.....	12,481	13,348	13,347
Water Resources Development Bond Fund.....	316,942	329,980	247,782
Central Valley Water Project Const Fund.....	274,534	148,915	86,030
Central Valley Water Project Revenue Fd.....	205,662	219,436	298,095
Expa & State Fair Enterprise Fund, Cal.....	17,206	17,302	17,234
Compensation Insurance Fund.....	1,165,847	1,148,000	1,204,000
Employment Training Fund.....	120,589	85,252	85,154
Harbors and Watercraft Revalving Fund.....	43,025	51,448	73,569
Univ Continuing Education Revenue Ed, St.....	92,723	93,474	93,474
Univ Maritime Revenue Fd, Calif State.....	82,132	67,346	67,346
University Parking Revenue Fund, State.....	27,065	32,789	32,789
Unemployment Compensation Disability Fd.....	1,798,200	1,758,379	1,732,471
Veterans Farm & Home Building Fund 1,943.....	305,835	292,736	277,959
Others.....	13,837	20,448	19,699
*TOTAL PUBLIC SERVICE ENTERPRISE FUNDS.....	\$4,476,078	\$4,278,853	\$4,248,949
WORKING CAPITAL AND REVOLVING FUNDS			
Protective Services Fund.....	\$28,032	\$28,201	\$26,149
Architecture Revalving Fund.....	20,578	21,516	18,070
Health & Welfare Agency Data Cent Rev Fd.....	160,798	289,374	207,580
Mobilehome Manufactured Home Revalv Fd.....	13,139	13,200	13,241
Public Buildings Construction Fund.....	616,522	389,289	523,287
Service Revalving Fund.....	376,647	379,931	386,774
Stephen P Teale Data Center Revalv Fd.....	73,032	79,944	85,537
Consumer Affairs Fund.....	973	25,028	25,027
Others.....	531	7,061	4,325
*TOTAL WORKING CAPITAL AND REVOLVING FUNDS.....	\$1,290,252	\$1,233,544	\$1,289,990
BOND FUNDS--OTHER			
Schaal Building Aid Fund, State.....	\$24,370	\$27,939	\$15,730
*TOTAL BOND FUNDS--OTHER.....	\$24,370	\$27,939	\$15,730
RETIREMENT FUNDS			
Judges Retirement Fund.....	\$71,887	\$74,236	\$76,600
Public Employees' Retirement Fund.....	3,979,676	4,339,505	4,691,724
Teachers Retirement Fund.....	2,896,242	3,254,458	3,461,116
Others.....	6,000	6,993	6,687
*TOTAL RETIREMENT FUNDS.....	\$6,953,805	\$7,675,192	\$8,236,127
OTHER NONGOVERNMENTAL COST FUNDS			
Targeted Case Management Claiming Fund.....	\$13,333	\$13,333	\$13,333
Education Technology Trust Fund.....	-	35,000	-

Funds	1995-96* Amount	1996-97* Amount	1997-98* Amount
Emerg Serv & Supplemental Payments Fund	556,195	340,095	113
Lottery Education Fund, Calif State	818,820	689,816	690,296
Flexelect Benefit Fund	12,818	13,428	14,071
Public Employees' Health Care Fund	336,824	347,339	365,324
Medi-Cal Inpatient Pymt Adjustment Fund	966,042	1,422,467	1,304,759
University Lottery Education Fund, Cal S	30,135	29,100	30,000
Collins-Dugan CA Conservation Corps Fund	21,968	-	-
Schaal Employees Fund	36,256	37,339	37,313
Inmate Welfare Fund	36,493	41,079	41,612
Forest Resources Improvement Fund	14,918	14,715	14,478
Trial Court Trust Fund	154,127	155,500	1,424,244
Special Deposit Fund	21,329	14,558	14,692
Guaranteed Loan Reserve Fund, State	150,117	4,898	1,357
Local Property Tax Revenues	10,000,995	10,152,648	10,494,878
Toll Bridge Funds, Consolidated	55,394	125,680	160,282
Higher Education Fees and Income- UC/CC	999,164	1,059,586	1,073,068
University Funds—Unclassified	4,276,782	4,378,186	4,530,290
Other Unclassified Funds	734,265	638,239	630,477
Others	53,742	54,968	48,974
*TOTAL OTHER NONGOVERNMENTAL COST FUNDS	\$19,289,717	\$19,567,974	\$20,889,561
TOTAL	\$32,034,222	\$32,783,502	\$34,680,357

**TOTAL STATE SPENDING PLAN—PART C
REIMBURSEMENTS**

Funds	1995-96* Amount	1996-97* Amount	1997-98* Amount
REIMBURSEMENTS	3,687,833	4,047,036	4,096,681

* Dollars in thousands

IMPLEMENTATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Implementation of Chapter 1286, Statutes of 1984, requires the State to conform its financial management system to Generally Accepted Accounting Principles (GAAP) to the extent that the Department of Finance deems it to be in the best interest of the State.

GAAP represents uniform minimum standards and guidelines for financial accounting and reporting. The goal of GAAP is to standardize the accounting and financial reporting of organizations regardless of jurisdictional legal provisions and customs. The purpose of "Governmental GAAP" is to provide a uniform set of rules so the presentation of governmental financial reports for taxpayers, bond rating companies, legislators, and other readers are consistent from year to year, as well as comparable between governmental entities.

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for activities and transactions of state and local governmental entities. The State of California currently is a dues-paying member of the GASB organization and provides input for the various issues being studied by GASB.

An effort is currently underway within the Department of Finance to ensure that the budget and financial statements of the State are more understandable and are presented in a fair and consistent manner through the application of Generally Accepted Accounting Principles.

The Department of Finance has taken the following actions to implement GAAP:

1. A work group was established to review the changes required by GAAP and to establish priorities and task assignments.
2. In 1986-87, the Governor's Budget and Budget Act changed the classification of student fees in the California State University System to revenue rather than reimbursements.
3. In 1986-87, the Governor's Budget and Budget Act changed the classification of State Hospital Medical Care receipts to reimbursements rather than revenue.
4. In 1987-88, the Governor's Budget displayed the interest and redemption costs of general obligation bonds in the relevant program area for each bond.
5. The Office of State Audits and Evaluation (OSAE) of the Department of Finance has done work on rewriting the sections of the State Administrative Manual covering proprietary funds to bring them into conformance with GAAP.
6. The "Fund Manual" for California has been rewritten to bring it into conformance with GAAP.
7. The 1989-90, Governor's Budget provided for the treatment of General Fund encumbrances as a reservation of fund balance rather than expenditures. This treatment is consistent with the GAAP standard that encumbrances are obligations for which goods and services have not been received and which therefore should not be shown as expenditures.

The State's fiscal system is highly complex with many interrelationships between budgeting and accounting. Consequently, some of the changes in accounting that are necessary to conform to GAAP impact the budget system and/or the Governor's Budget presentations. These interrelationships will result in the GAAP changes being accomplished over a number of years.

The following two charts illustrate the effect of conversion to GAAP fund classifications:

Schedule 3A shows the "Total State Spending Plan" data shown in Schedule 2 reorganized into the GAAP classifications.

Schedule 3B uses 1997-98 budget totals to show California's current fund structure compared to recommended GAAP classifications.

SCHEDULE 3A TOTAL STATE SPENDING PLAN BY GAAP FUND CLASSIFICATION (In Thousands)

GAAP Fund Structure	1995-96	1996-97	1997-98
<i>Governmental Funds</i>			
General Funds.....	45,393,091	48,443,086	50,300,984
Special Revenue Funds.....	31,625,614	34,257,322	36,948,409
Capital Project Funds.....	1,904,962	1,925,510	1,720,324
Total Governmental Funds.....	\$78,923,667	\$84,625,918	\$88,969,717
<i>Proprietary Funds</i>			
Enterprise Funds.....	\$3,268,997	\$2,922,986	\$3,055,067
Internal Service Funds.....	656,691	824,320	753,011
Total Proprietary Funds.....	\$3,925,688	\$3,747,306	\$3,808,078
<i>Fiduciary Funds</i>			
Retirement Funds.....	\$6,953,591	\$7,674,445	\$8,235,748
Trust and Agency Funds—Other.....	8,604,074	8,863,143	8,399,839
Trust and Agency Funds—Federal.....	3,695,920	3,565,765	3,437,715
Total Fiduciary Funds.....	\$19,253,585	\$20,103,353	\$20,073,302
<i>Funds Outside State Treasury</i>			
Other.....	\$20,141,285	\$20,558,189	\$21,083,361
Total Funds Outside State Treasury.....	\$20,141,285	\$20,558,189	\$21,083,361
TOTAL SPENDING, ALL FUNDS.....	\$122,244,225	\$129,034,766	\$133,934,458

SCHEDULE 3B
COMPARISON OF CALIFORNIA CURRENT
FUND STRUCTURE AND RECOMMENDED GAAP FUND STRUCTURE
USING 1997-98 BUDGET TOTALS
(In Thousands)

FUND STRUCTURE BASED ON GAAP CLASSIFICATION

CURRENT FUND STRUCTURE	Governmental Funds				Proprietary Funds		Fiduciary Funds		Funds Outside State Treasury	Totals
	General Fund	Special Revenue Funds	Capital Project Funds	Total Governmental Funds	Enterprise Funds	Internal Service Funds	Retirement Funds	Trust and Agency Funds		
Governmental Cost Funds										
General Funds	50,300,984	-	-	50,300,984	-	-	-	-	-	50,300,984
General Fund Special Accounts	-	992,040	-	992,040	51,119	21,944	-	29,099	-	1,094,202
Transportation Funds	-	3,993,877	-	3,993,877	-	-	-	3,862,026	-	7,855,903
Feeder Funds	-	-	-	-	-	-	-	30,053	-	30,053
Other Governmental Cost Funds	-	5,336,611	1,979	5,338,590	-	-	-	24,517	-	5,363,107
Total Governmental Cost Funds	\$50,300,984	\$10,322,528	\$1,979	\$60,625,491	\$51,119	\$21,944	-	\$3,945,695	-	\$64,644,249
Selected Bond Funds	-	\$193,660	\$1,696,820	\$1,890,480	-	-	-	\$102,547	\$520	\$1,993,547
Total Governmental Cost Funds and Selected Bond Funds	\$50,300,984	\$10,516,188	\$1,698,799	\$62,515,971	\$51,119	\$21,944	-	\$4,048,242	\$520	\$66,637,796
Nongovernmental Cost Funds										
Public Service Enterprise Funds	-	-	3,455	3,455	2,427,869	-	-	1,817,625	-	4,248,949
Working Capital and Revolving Funds	-	13,241	18,070	31,311	532,758	731,067	-	-5,146	-	1,289,990
Bond Funds--Other	-	-	-	-	-	-	-	15,730	-	15,730
Trust and Agency Funds:										
Retirement Funds	-	-	-	-	-	-	8,235,748	379	-	8,236,127
Trust and Agency Funds--Federal	-	24,986,554	-	24,986,554	-	-	-	3,437,715	4,192,036	32,616,305
Trust and Agency Funds--Other	-	1,432,426	-	1,432,426	43,321	-	-	2,523,009	-	3,998,756
Other Nongovernmental Cost Funds	-	-	-	-	-	-	-	-	16,890,805	16,890,805
Total Nongovernmental Cost Funds	-	\$26,432,221	\$21,525	\$26,453,746	\$3,003,948	\$731,067	\$8,235,748	\$7,789,312	\$21,082,841	\$67,296,662
TOTAL SPENDING, ALL FUNDS	\$50,300,984	\$36,948,409	\$1,720,324	\$88,969,717	\$3,055,067	\$753,011	\$8,235,748	\$11,837,554	\$21,083,361	\$133,934,458

SCHEDULE 4
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(dollars in thousands)

	Personnel Years			Dollars		
	1995-96	1996-97	1997-98	1995-96	1996-97	1997-98
Legislative, Judicial, and Executive						
Legislative.....	594.6	697.0	697.0	\$33,457	\$38,346	\$39,654
Judicial.....	981.9	1,123.6	1,171.3	69,286	75,859	80,282
Executive/Governor.....	972.1	1,158.2	1,171.0	45,433	53,168	57,981
Executive/Constitutional Offices.....	10,686.6	11,319.0	11,258.4	483,978	507,281	510,688
State and Consumer Services.....	12,971.6	13,373.0	13,524.5	508,062	526,253	536,424
Business, Transportation, and Housing						
Business and Housing.....	2,010.4	2,031.2	1,945.4	91,106	90,875	88,171
Transportation.....	34,891.9	35,010.9	35,810.4	1,609,020	1,618,719	1,628,568
Trade and Commerce Agency.....	256.8	291.9	302.2	11,985	13,590	14,263
Resources.....	13,859.5	14,286.2	14,361.1	616,328	619,767	628,402
Calif Environmental Protection Agency.....	4,011.7	4,275.7	4,229.4	196,167	206,923	208,219
Health and Welfare.....	38,461.3	39,281.0	38,138.7	1,579,553	1,594,316	1,559,920
Youth and Adult Correctional Agency.....	41,009.3	45,892.6	48,102.6	1,983,576	2,110,557	2,212,635
Education						
K thru 12 Education.....	2,394.9	2,624.2	2,681.9	102,341	111,931	116,176
Higher Education-Community Colleges	176.0	184.0	185.0	8,955	9,147	9,249
Higher Education-UC, CSU and Other.....	93,243.3	88,789.6	89,077.9	3,926,956	3,966,185	4,066,094
General Government						
General Administration.....	14,553.9	15,108.1	15,246.2	593,862	611,001	633,217
NET TOTALS, SALARIES AND WAGES.....	271,075.8	275,446.2	277,903.0	\$11,860,065	\$12,153,918	\$12,389,943
Position Classification						
Civil Service.....	175,622.1	184,226.6	186,349.3	\$7,774,777	\$8,012,794	\$8,143,867
Constitutional.....	131.0	131.0	131.0	11,179	11,814	12,621
Statutory.....	255.2	276.3	275.3	27,203	30,128	30,102
Exempt						
Various Departments.....	2,352.3	2,589.2	2,630.3	140,476	154,950	159,469
Higher Education						
University of California.....	55,765.9	53,789.7	54,083.7	2,384,508	2,379,952	2,478,852
Hastings College of Law.....	222.8	223.1	223.1	12,125	13,616	14,368
California State University.....	36,726.5	34,210.3	34,210.3	1,509,797	1,550,664	1,550,664
NET TOTALS, SALARIES AND WAGES.....	271,075.8	275,446.2	277,903.0	\$11,860,065	\$12,153,918	\$12,389,943

SCHEDULE 5
POSITIONS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(dollars in thousands)

	Personnel Years			Dollars		
	1995-96	1996-97	1997-98	1995-96	1996-97	1997-98
Legislative, Judicial, and Executive						
Legislative.....	594.6	708.5	708.5	\$33,457	\$38,928	\$40,236
Judicial.....	981.9	1,152.3	1,200.6	69,286	77,600	83,040
Executive/Governor.....	972.1	1,210.2	1,223.7	45,433	55,632	60,722
Executive/Constitutional Offices.....	10,686.6	11,882.8	11,817.0	483,978	532,073	536,102
State and Consumer Services.....	12,971.6	14,018.9	14,163.7	508,062	552,773	564,157
Business, Transportation, and Housing						
Business and Housing.....	2,010.4	2,182.5	2,085.2	91,106	96,924	94,812
Transportation.....	34,891.9	36,727.3	37,123.6	1,609,020	1,704,478	1,717,178
Traffic and Commerce Agency.....	256.8	307.3	318.3	11,985	14,299	15,009
Resources.....	13,859.5	14,989.4	15,104.1	616,328	648,717	660,939
Calif Environmental Protection Agency.....	4,011.7	4,497.2	4,448.2	196,167	216,891	219,045
Health and Welfare.....	38,461.3	41,865.5	40,837.1	1,579,553	1,703,287	1,674,607
Youth and Adult Correctional Agency.....	41,009.3	48,209.7	50,449.9	1,983,576	2,220,590	2,325,293
Education						
K thru 12 Education.....	2,394.9	2,790.4	2,851.7	102,341	119,038	123,515
Higher Education-Community Colleges ...	176.0	194.7	194.7	8,955	9,628	9,736
Higher Education-UC, CSU and Other.....	93,243.3	91,951.7	92,240.7	3,926,956	4,110,853	4,210,789
General Government						
General Administration.....	14,553.9	15,558.7	15,722.9	593,862	630,451	653,935
TOTALS, SALARIES AND WAGES.....	271,075.8	288,247.1	290,489.9	\$11,860,065	\$12,732,162	\$12,989,115
Less Salary Savings.....	-	-12,800.9	-12,586.9	-	-578,244	-599,172
NET TOTALS, SALARIES AND WAGES.....	271,075.8	275,446.2	277,903.0	\$11,860,065	\$12,153,918	\$12,389,943

SCHEDULE 6
SUMMARY OF STATE POPULATION, EMPLOYEES, AND EXPENDITURES

Year	Population ¹ (Thousands)	Employees	Employees Per 1,000 Population	Personal Income (Billions)	Revenue		Expenditures		Expenditures per Capita		Expenditures per \$100 of Personal Income	
					General Fund	Total	General Fund ²	Total ³	General Fund ²	Total ³	General Fund ²	Total ³
					(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)
1950-51	10,643	61,000	5.7	\$19.8	\$672	\$994	\$587	\$1,006	\$55.15	\$94.52	\$2.96	\$5.08
1951-52	11,130	63,860	5.7	22.8	734	1,086	635	1,068	57.05	95.96	2.79	4.68
1952-53	11,638	65,720	5.6	25.4	774	1,151	714	1,177	61.35	101.13	2.81	4.63
1953-54	12,101	69,928	5.8	27.2	798	1,271	809	1,381	66.85	114.12	2.97	5.08
1954-55	12,517	74,099	5.9	28.1	879	1,434	852	1,422	68.07	113.61	3.03	5.06
1955-56	13,004	77,676	6.0	30.9	1,005	1,578	923	1,533	70.98	117.89	2.99	4.96
1956-57	13,581	88,299	6.5	33.8	1,079	1,834	1,030	1,732	75.84	127.53	3.05	5.12
1957-58	14,177	98,015	6.9	36.4	1,111	1,751	1,147	1,891	80.91	133.39	3.15	5.20
1958-59	14,741	101,982	6.9	38.1	1,210	1,925	1,246	1,932	84.53	131.06	3.27	5.07
1959-60	15,288	108,423	7.1	41.8	1,491	2,198	1,435	2,086	93.86	136.45	3.43	4.99
1960-61	15,863	115,737	7.3	44.2	1,598	2,338	1,678	2,525	105.78	159.18	3.80	5.71
1961-62	16,412	122,339	7.5	46.9	1,728	2,451	1,697	2,406	103.40	146.60	3.62	5.13
1962-63	16,951	128,981	7.6	50.6	1,866	2,668	1,881	2,703	110.97	159.46	3.72	5.34
1963-64	17,530	134,721	7.7	54.2	2,137	3,057	2,064	3,182	117.74	181.52	3.81	5.88
1964-65	18,026	143,896	8.0	58.8	2,245	3,295	2,345	3,652	130.09	202.60	3.99	6.22
1965-66	18,464	151,199	8.2	62.9	2,509	3,581	2,580	4,059	139.73	219.83	4.10	6.45
1966-67	18,831	158,404	8.4	68.4	2,895	4,073	3,017	4,659	160.21	247.41	4.41	6.81
1967-68	19,175	162,677	8.5	73.8	3,682	4,927	3,273	5,014	170.69	261.49	4.43	6.79
1968-69	19,432	171,655	8.8	80.9	4,136	5,450	3,909	5,673	201.16	291.94	4.83	7.01
1969-70	19,745	179,583	9.1	89.1	4,330	5,743	4,456	6,302	225.68	319.17	5.00	7.07
1970-71	20,039	181,581	9.1	95.7	4,534	5,919	4,854	6,556	242.23	327.16	5.07	6.85
1971-72	20,346	181,912	8.9	101.5	5,395	6,897	5,027	6,684	247.08	328.52	4.95	6.56
1972-73	20,585	188,460	9.2	111.0	5,780	7,366	5,616	7,422	272.82	360.55	5.06	6.67
1973-74	20,869	192,918	9.2	122.5	6,978	8,715	7,299	9,311	349.75	446.16	5.96	7.60
1974-75	21,174	203,548	9.6	136.8	8,630	10,405	8,349	10,276	394.30	485.31	6.10	7.51
1975-76	21,538	206,361	9.6	150.2	9,639	11,567	9,518	11,452	441.92	531.71	6.34	7.62
1976-77	21,936	213,795	9.7	168.6	11,381	13,463	10,467	12,632	477.16	575.86	6.21	7.49
1977-78	22,352	221,251	9.9	187.8	13,695	15,962	11,686	14,003	522.82	626.48	6.22	7.46
1978-79	22,836	218,530	9.6	215.2	15,219	17,711	16,251	18,745	711.64	820.85	7.55	8.71
1979-80	23,257	220,193	9.5	246.6	17,985	20,919	18,534	21,488	796.92	923.94	7.52	8.71
1980-81	23,782	225,567	9.5	280.6	19,023	22,104	21,105	24,511	887.44	1,030.65	7.52	8.74
1981-82	24,278	228,813	9.4	314.1	20,960	23,601	21,693	25,022	893.53	1,030.65	6.91	7.97
1982-83	24,805	228,489	9.2	335.2	21,233	24,291	21,751	25,330	876.88	1,021.17	6.49	7.56
1983-84	25,337	226,695	8.9	361.3	23,809	27,626	22,869	26,797	902.59	1,057.62	6.33	7.42
1984-85	25,816	229,845	8.9	402.0	26,536	31,570	25,722	30,961	996.36	1,199.30	6.40	7.70
1985-86	26,403	229,641	8.7	436.5	28,072	33,558	28,841	34,977	1,092.34	1,324.74	6.61	8.01
1986-87	27,052	232,927	8.6	468.3	32,519	37,767	31,469	38,079	1,163.28	1,407.62	6.72	8.13
1987-88	27,717	237,761	8.6	504.6	32,534	38,773	33,021	40,452	1,191.36	1,459.47	6.54	8.02
1988-89	28,393	248,173	8.7	547.5	36,953	43,322	35,897	44,634	1,264.29	1,572.01	6.56	8.15
1989-90	29,142	254,589	8.7	588.4	38,750	46,453	39,456	48,594	1,353.92	1,667.49	6.71	8.26
1990-91	29,944	260,622	8.7	636.6	38,214	47,024	40,264	51,446	1,344.64	1,718.07	6.32	8.08
1991-92	30,565	261,713	8.6	651.2	42,026	53,117	43,327	56,280	1,417.54	1,841.32	6.65	8.64
1992-93	31,188	260,939	8.4	683.4	40,946	52,526	40,948	56,480	1,312.94	1,810.95	5.99	8.26
1993-94	31,517	265,035	8.4	697.9	40,095	52,384	38,958	53,083	1,236.09	1,684.27	5.58	7.61
1994-95	31,790	269,004	8.5	715.9	42,710	54,942	41,961	54,613	1,319.94	1,717.93	5.86	7.63
1995-96	32,063	271,076	8.5	760.4	46,296	59,266	45,393	59,870	1,415.74	1,867.26	5.97	7.87
1996-97	32,666	275,446	8.4	815.0	48,405	61,946	48,443	64,240	1,482.98	1,966.57	5.94	7.88
1997-98	33,309	277,903	8.3	869.1	50,657	64,732	50,301	66,638	1,510.13	2,000.60	5.79	7.67

¹ Population as of July 1, the beginning of the fiscal year.

² Includes Special Accounts in General Fund from 1973-74 to 1976-77.

³ Expenditures include payments from General Fund, Special Funds and Selected Bond Funds beginning in 1963-64.

Schedule 7
GENERAL FUND
(In Thousands)
STATEMENT OF FUND BALANCE
June 30, 1996

The following summarizes adjustments which have been incorporated by the Department of Finance to arrive at the June 30, 1996, fund balance shown for the General Fund on the General Budget Summary, Schedule 1.

FUND BALANCE IN CONTROLLER'S PRELIMINARY REPORT	\$1,073,851
ADJUSTMENTS:	
Revenue adjustments—Department of Health Services	3,168
Transfer from EDD Contingent Fund	12,851
Adjustment for SWCAP	-11,441
University of California expenditures—shift to 1996-97	16,100
Expenditure adjustment, Dept of Mental Health	15,467
Expenditure adjustment, Community Colleges	7,700
Proposition 98 adjustments for K-12, Community Colleges and California Teacher Credentialing	-387,206
Adjustment for revenues and expenditures to reflect Dept. of Finance budgetary schedules	-45,043
TOTAL ADJUSTMENTS	<u>-\$388,404</u>
FUND BALANCE PER GENERAL BUDGET SUMMARY, SCHEDULE 1	\$685,447

SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

Sources	Actual 1995-96			Estimated 1996-97			Estimated 1997-98		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
MAJOR TAXES AND LICENSES									
Alcoholic Beverage Taxes and Fees.....	269,227	-	269,227	264,200	-	264,200	262,100	-	262,100
Bank and Corporation (Income) Taxes.....	5,862,241	86	5,862,327	5,795,000	100	5,795,100	5,860,000	-	5,860,000
Cigarette Tax.....	170,796	496,015	666,811	169,000	487,800	656,800	168,600	486,590	655,190
Horse Racing (Parimutuel) License Fees.....	67,239	38,818	106,057	46,709	37,993	84,702	37,030	36,748	73,778
Estate, Inheritance and Gift Tax.....	659,337	-	659,337	645,000	-	645,000	665,000	-	665,000
Insurance Grass Premiums Tax.....	1,131,737	-	1,131,737	1,124,000	-	1,124,000	1,196,000	-	1,196,000
Trailer Coach License (In-Lieu) Fees.....	35,790	-	35,790	36,700	-	36,700	36,800	-	36,800
Motor Vehicle License (In-Lieu) Fees.....	3,338,514	3,338,514	6,677,028	-	3,524,603	3,524,603	-	3,713,404	3,713,404
Motor Vehicle Fuel Tax (Gasoline).....	2,423,415	2,423,415	4,846,830	-	2,519,483	2,519,483	-	2,569,863	2,569,863
Motor Vehicle Fuel Tax (Diesel).....	350,891	350,891	701,782	-	358,740	358,740	-	376,200	376,200
Motor Vehicle Registration.....	1,615,708	1,615,708	3,231,416	-	1,636,572	1,636,572	-	1,716,240	1,716,240
Personal Income Tax.....	20,875,045	20,875,045	41,750,090	22,660,000	-	22,660,000	24,240,000	-	24,240,000
Retail Sales and Use Tax-Redemption.....	15,753,154	1,605,439	17,358,593	16,485,000	1,657,800	18,142,800	17,325,000	1,770,000	19,095,000
Retail Sales and Use Taxes.....	-	166,429	166,429	-	185,485	185,485	-	191,544	191,544
TOTALS, MAJOR TAXES AND LICENSES.....	44,824,566	10,035,315	54,859,881	47,225,609	10,408,576	57,634,185	49,780,530	10,860,589	60,641,119
MINOR REVENUES									
REGULATORY TAXES AND LICENSES									
General Fish and Game Taxes.....	-	2,189	2,189	-	2,307	2,307	-	2,225	2,225
Energy Resource Surcharge.....	-	42,207	42,207	-	43,051	43,051	-	110,371	110,371
Quarterly Public Util. Commission Fees.....	-	68,345	68,345	-	61,454	61,454	-	59,053	59,053
Hwy Carrier Uniform Business License Tax.....	6,029	-	6,029	1,500	-	1,500	250	-	250
Liquor License Fees.....	-	3,503	3,503	-	3,500	3,500	-	3,500	3,500
Off-Highway Vehicle Fees.....	-	41,289	41,289	-	34,154	34,154	-	34,154	34,154
Genetic Disease Testing Fees.....	-	52,166	52,166	-	56,685	56,685	-	58,151	58,151
Other Regulatory Taxes.....	9,997	53,618	63,615	10,009	54,197	64,206	10,897	41,531	52,428
New Motor Vehicle Dealer License Fee.....	-	1,450	1,450	-	1,497	1,497	-	1,464	1,464
General Fish and Game Lic Tags Permits.....	-	70,097	70,097	-	69,558	69,558	-	71,339	71,339
Elevator and Boiler Inspection Fees.....	188	9,035	9,223	165	8,813	8,978	165	8,813	8,978
Industrial Homework Fees.....	6	-	6	7	-	7	7	-	7
Employment Agency License Fees.....	574	426	1,000	500	743	1,243	500	743	1,243
Employment Agency Filing Fees.....	17	-	17	17	-	17	17	-	17
Teacher Credential Fees.....	-	9,357	9,357	-	10,701	10,701	-	10,701	10,701
Teacher Examination Fees.....	-	4,292	4,292	-	6,290	6,290	-	6,710	6,710
Insurance Ca License Fees & Penalties.....	-	24,588	24,588	-	24,720	24,720	-	25,469	25,469
Insurance Company Examination Fees.....	-	16,624	16,624	-	18,345	18,345	-	18,345	18,345
Other Insurance Department Fees.....	-	32,595	32,595	-	28,143	28,143	-	24,104	24,104
Division of Real Estate Examination Fees.....	-	1,671	1,671	-	3,232	3,232	-	2,694	2,694
Div of Real Estate License Fees.....	-	14,971	14,971	-	19,905	19,905	-	20,097	20,097
Subdivision Filing Fees.....	-	5,098	5,098	-	5,180	5,180	-	5,200	5,200
Building Construction Filing Fees.....	-	1,492	1,492	-	1,800	1,800	-	1,800	1,800
Savings & Loan Fees.....	-	7	7	-	-	-	-	-	-
Domestic Corporation Fees.....	-	5,042	5,042	-	5,076	5,076	-	5,175	5,175
Foreign Corporation Fees.....	-	1,669	1,669	-	740	740	-	755	755
Natary Public License Fees.....	-	877	877	-	875	875	-	1,040	1,040
Filing Financing Statements.....	-	4,710	4,710	-	7,913	7,913	-	7,913	7,913
Candidate Filing Fee.....	539	-	539	4	-	4	752	-	752
Beverage Container Redemption Fees.....	-	327,699	327,699	-	343,105	343,105	-	345,000	345,000
Explosive Permit Fees.....	6	-	6	3	-	3	3	-	3
Processing Fees.....	-	15,378	15,378	-	14,834	14,834	-	16,489	16,489
Hazardous Waste Control Fees.....	-	48,722	48,722	-	42,864	42,864	-	40,340	40,340
Other Regulatory Fees.....	65,991	399,179	465,170	64,923	430,196	495,119	65,003	450,829	515,832
Other Regulatory Licenses and Permits.....	33,868	234,416	268,284	35,056	252,669	287,725	31,580	253,687	285,267
Renewal Fees.....	-	119,566	119,566	-	123,059	123,059	-	111,180	111,180

SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in thousands)

Sources	Actual 1995-96			Estimated 1996-97			Estimated 1997-98		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Delinquent Fees	-	4,308	4,308	-	2,864	2,864	-	2,848	2,848
Universal Telephone Service Tax	599	-	599	-	-	-	-	-	-
Private Roll Cor Tax	5,346	-	5,346	6,170	-	6,170	6,170	-	6,170
TOTALS, REGULATORY TAXES AND LICENSES	123,160	1,616,586	1,739,746	118,354	1,678,470	1,796,824	115,344	1,741,720	1,857,064
REVENUE FROM LOCAL AGENCIES									
Trial Court Revenues	308,485	-	308,485	290,500	-	290,500	-	-	-
Architecture Public Building Fees	-	22,669	22,669	-	25,752	25,752	-	27,047	27,047
Penalties on Traffic Violations	-	85,556	85,556	-	86,817	86,817	-	86,741	86,741
Penalties on Felony Convictions	-	27,902	27,902	-	26,000	26,000	-	32,000	32,000
Fines-Crimes of Public Offense	-	4,678	4,678	-	9,000	9,000	-	11,000	11,000
Fish and Game Violation Fines	-	878	878	-	1,003	1,003	-	1,003	1,003
Penalty Assessments on Fish & Game Fines	-	420	420	-	429	429	-	429	429
Interest on Loans to Local Agencies	58	1,303	1,361	62	1,327	1,389	62	1,322	1,384
Add'l Assmnts on Fish & Game Fines	-	27	27	-	40	40	-	60	60
Narcotic Fines	2,486	-	2,486	2,470	-	2,470	2,470	-	2,470
Fingerprint ID Card Fees	425	25,280	25,280	389	26,350	26,350	303	27,380	27,380
Misc Revenue From Local Agencies	2,186	3,744	4,169	3,250	3,984	4,373	3,250	4,996	4,699
Open Space Cancellation Fee Deferrd Taxes	2,045	985	3,171	2,923	1,000	4,250	2,863	994	4,244
Rev Local Govt Agencies-Cost Recoveries	-	401	2,446	-	360	3,283	-	360	3,223
TOTALS, REVENUE FROM LOCAL AGENCIES	315,685	173,843	489,528	299,594	182,062	481,656	8,948	192,732	201,680
SERVICES TO THE PUBLIC									
Pov Patients Boord Charges	19,403	-	19,403	19,400	-	19,400	17,160	-	17,160
State Beach and Park Service Fees	-	51,466	51,466	-	53,300	53,300	-	53,700	53,700
Parking Lot Revenues	681	5,107	5,788	-	7,913	7,913	-	7,952	7,952
Fire Prevention and Suppression	414	-	414	500	-	500	500	-	500
Emergency Telephone Users Surcharge	449	74,107	74,107	444	74,541	74,541	-	74,541	74,541
Sales of Documents	46	2,554	3,003	60	2,670	3,114	445	2,688	3,133
General Fees-Secretary of State	-	9,573	9,619	-	11,173	11,233	34	11,737	11,771
Potential Fees	13	2,004	2,004	15	1,710	1,710	15	1,950	1,950
Guardianship Fees	6,273	-	6,273	3,673	-	3,673	3,882	-	3,882
Miscellaneous Services to the Public	8,000	67,412	73,685	8,000	70,369	74,042	8,000	70,878	74,760
Receipts From Health Care Deposit Fund	7,450	-	7,450	8,040	-	8,040	7,032	-	7,032
Medicare Receipts From Federal Government	-	608,438	608,438	-	603,668	603,668	-	609,368	609,368
California State University Fees	-	32,461	32,461	-	33,021	33,021	-	33,284	33,284
Personalized License Plates	-	-	-	-	-	-	-	-	-
TOTALS, SERVICES TO THE PUBLIC	42,729	853,122	895,851	40,132	858,365	898,497	37,068	866,098	903,166
USE OF PROPERTY AND MONEY									
Income From Pooled Money Investments	281,793	1,043	282,836	272,000	1,759	273,759	254,000	1,964	255,964
Income From Surplus Money Investments	38,992	109,208	148,200	32,000	112,297	144,297	32,000	104,887	136,887
Interest Income From Loans	2,645	1,789	4,434	4,375	1,951	6,326	3,200	2,823	6,023
Interest From Interfund Loans	354	-	354	-	121	121	-	-	-
Income From Other Investments	8	522	530	100	654	754	100	634	734
Income From Condemnation Deposits Fund	-	2,001	2,001	-	1,809	1,809	-	1,637	1,637
Federal Lands Royalties	129	23,433	23,433	125	21,576	21,576	110	21,576	21,576
Oil & Gas Lease-1% Revenue City/County	6,433	34,429	40,862	6,357	34,627	40,984	6,232	34,283	40,515
Rentals of State Property	16,137	34,920	51,057	17,000	36,143	53,143	18,000	33,960	51,960
Misc Revenue From Use of Property & Money	-	-	-	-	-	-	-	-	-

SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

Sources	Actual 1995-96			Estimated 1996-97			Estimated 1997-98		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
School Lands Royalties	-	7	7	-	10	10	-	10	10
State Lands Royalties	71,355	-	71,355	69,348	-	69,348	68,248	-	68,248
TOTALS, USE OF PROPERTY AND MONEY	417,846	207,352	625,198	401,305	210,947	612,252	381,890	201,774	583,664
MISCELLANEOUS									
Attorney General Proceeds of Anti-Trust	-	18	18	-	-	-	-	22	22
Penalties & Interest on UI & DI Contrib.	-	50,372	50,372	-	45,638	45,638	-	48,377	48,377
Sole of Fixed Assets	1,089	803	1,892	27,137	38	27,175	17,477	38	17,515
Sole of Confiscated Property	4,501	40	4,541	3,259	40	3,299	3,259	40	3,299
Sole of State's Public Lands	71	40	111	100	720	820	100	20	120
Proceeds from Estates of Deceased Person	66	-	66	20	-	20	27	-	27
Escheat of Unclaimed Property	1	-	1	-	-	-	-	-	-
Revenue-Abandoned Property	245,427	-	245,427	165,000	-	165,000	165,000	-	165,000
Escheat of Unclaimed Checks & Warrants	3,401	322	3,723	3,193	230	3,423	3,193	229	3,422
Subsequent Injuries Revenue	-	3,108	3,108	-	3,300	3,300	-	3,300	3,300
Miscellaneous Revenue	30,947	52,447	83,394	37,175	51,272	88,447	36,620	52,168	88,788
Penalties & Intrst on Personal Income Tx	-	12,851	12,851	-	13,000	13,000	-	14,100	14,100
Other Revenue - Cost Recoveries	6,409	38,263	44,672	-	25,119	25,119	-	25,789	25,789
Traffic Violations	-	7,012	7,012	-	6,963	6,963	-	6,963	6,963
Parking Violations	2	62	64	2	75	77	2	75	77
Penalty Assessments	18,961	43,396	62,357	16,240	47,044	63,284	15,063	47,218	62,281
Civil & Criminal Violation Assessment	301	2,136	2,437	178	1,913	2,091	203	1,761	1,964
TOTALS, MISCELLANEOUS	311,176	210,870	522,046	252,304	195,352	447,656	240,944	200,100	441,044
TOTALS, MINOR REVENUES	1,210,596	3,061,773	4,272,369	1,111,689	3,125,196	4,236,885	784,194	3,202,424	3,986,618
TOTALS, REVENUES	46,035,162	13,097,088	59,132,250	48,337,298	13,533,772	61,871,070	50,564,724	14,063,013	64,627,737
TRANSFERS AND LOANS									
General Fund	-10,189	9,051	-1,138	-44,792	17,081	-27,711	-31,646	500	-31,146
Attorney General Antitrust Account	42	-42	-	-	-	-	-	-	-
Guide Dogs for the Blind Fund	11	-11	-	-	-	-	-	-	-
Motor Vehicle Insurance Account, State	-	-2,200	-2,200	-	-2,200	-2,200	-	-	-
Surface Mining and Reclamation Account	579	-579	-	-	-	-	-	-	-
Special Account for Capital Outlay	53	-53	-	-	-	-	-	-	-
Highway Account, State, STF	77,000	-77,000	-	-	-	-	-	-	-
Motor Vehicle Account, STF	53,795	-53,795	-	-	-17,485	-17,485	-	-	-
Transport Planning & Develop Acct, STF	-	-	-	-	-5,220	-5,220	-	-4,709	-
Alcohol Beverage Control Fund	8,744	-8,744	-	5,220	-	-	4,709	-	-
Col- OSHA Targeted Inspection & Consult	4,000	-4,000	-	-	-28	-	32	-32	-
Auctioneer Commission Fund	-	-148	-	28	-	-	2,954	-2,954	-
Water Device Certification Special Acct	148	-	-	-	-	-	-	-	-
Environmental License Plate Fund, Collf	3,232	-3,232	-	-	-	-	-	-	-
Capital Outlay Fd for Public Higher Educ	86	-86	-	100	-100	-	-	-	-
Unifony Fund, California	-	-	-	59	-59	-	66	-66	-
Collection Agency Fund	22,457	-22,457	-	-	-	-	25,059	-25,059	-
Outer Cont Shell Land Sec 8g Rev Fnd	-	-	-	14,706	-14,706	-	-	-	-
Driver Training Penalty Assessment Fund	-	-	-	2,755	-2,755	-	-	-	-
Employment Development Dept Benefit Audit	21,183	-21,183	-	17,252	-17,252	-	18,678	-18,678	-
Employment Development Contingent Fund	426	-426	-	448	-448	-	490	-490	-
Energy and Resource Fund	511	-511	-	246	-246	-	246	-246	-
Fair and Exposition Fund	2,700	-2,700	-	-	-	-	-	-	-
Sorellite Wagering Account	2,000	-2,000	-	-	-	-	-	-	-
Fish and Game Preservation Fund	-	-	-	-	-	-	-	-	-

SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

Sources	Actual 1995-96			Estimated 1996-97			Estimated 1997-98		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Insurance Fund.....	-	-	-	-	-	-	16,800	-16,800	-
Business Fees Fund, Secty of State's.....	1,096	-1,096	-	4,065	-4,065	-	3,083	-3,083	-
OES Disaster Admin Suppt Acc(Abal7/1/97).....	-	-	-	23	-23	-	-	-	-
Public Fac&loc Ag Dis Res Ac(Abol7/1/97).....	-	-	-	2,753	-2,753	-	-	-	-
Street and Highway Account (Abal 7/1/97).....	-	-	-	889	-889	-	-	-	-
Habitat Conservation Fund.....	-	-	-	-	-1,000	-1,000	-	-	-
Motor Carriers Permit Fund.....	-	-	-	6,845	-6,845	-	6,541	-6,541	-
In-Home Supportive Service Reg Model,SIA.....	-	-	-	-	-	-	180	-180	-
Disaster Relief Fund.....	10,018	-10,018	-	7,550	-7,550	-	100	-100	-
Olympic Training Account California.....	200	-200	-	100	-100	-	-	-	-
Energy Resources Programs Account.....	3,549	-3,549	-	-	-	-	-	-	-
Financial Responsibility Penalty Account.....	6,730	-6,730	-	7,391	-7,391	-	6,963	-6,963	-
Water Resources Development Bond Fund.....	-	27,011	27,011	-	26,600	26,600	-	27,177	27,177
Expa & State Fair Enterprise Fund, Cal.....	-	217	217	-	228	228	-	228	228
Harbars and Watercraft Revolving Fund.....	3,718	-	3,718	-	-	-	-	-	-
Agriculture Building Fund.....	-	98	98	-	-	-	-	-	-
Water Quality Control Fund, State.....	-	-	-	5,800	-	5,800	-	1,500	1,500
Disaster Housing Repair Fund, California.....	8,000	-	8,000	-	-	-	-	-	-
Health Science Facil Construct Prag Fund.....	328	-	328	-	-	-	-	-	-
Beach Park Rec & Hist Facil Fd 1974, St.....	878	-	878	-	-	-	-	-	-
Construction Program Fund, State.....	931	-	931	-	-	-	-	-	-
School Building Aid Fund, State.....	23,146	-	23,146	22,796	-	22,796	23,596	-	23,596
Clean Water Bond Fund, 1984 State.....	585	-	585	500	-	500	500	-	500
Water Conserv Water Quality Bond Fund 1986.....	4,175	-	4,175	4,000	-	4,000	4,000	-	4,000
Clean Water & Reclamation Fnd, 1988.....	1,439	-	1,439	1,400	-	1,400	1,400	-	1,400
Computer Software Refund Fund.....	-	-	-	10	-	10	-	-	-
Self-Help Housing Fund.....	300	-	300	-	-	-	-	-	-
Superfund Bond Trust Fund.....	-	9,478	9,478	-	6,437	6,437	-	1,909	1,909
Milk Producers Security Trust Fund.....	-	2,400	2,400	-	1,800	1,800	-	1,800	1,800
Collins-Dugan CA Conservation Corps Fund.....	-	-	-	-	23,318	23,318	-	25,588	25,588
Industrial Relations Unpaid Wage Fund.....	-	-	-	93	-	93	161	-	161
Forest Resources Improvement Fund.....	1,309	84	1,393	235	-	235	300	-	300
Homeownership Assistance Fund.....	1,500	-	1,500	-	-	-	-	-	-
Renewable Resources Investment Fund.....	-	-	-	-	2,042	2,042	-	2,000	2,000
Special Deposit Fund.....	2,853	36,700	39,553	3,518	17,396	20,914	3,488	19,645	23,133
School Site Utilization Fund, State.....	3,040	-	3,040	3,000	-	3,000	3,000	-	3,000
Voluntary Alliance Uniting Employers Fd.....	-	-	-	-	2,500	2,500	-	1,350	1,350
Foster Children and Parent Train Fund.....	201	-	201	1,178	-	1,178	2,049	-	2,049
Unclaimed Property Fund.....	-	-	-	-	800	800	-	16,000	16,000
Toll Bridge Funds, Consolidated.....	-	8,610	8,610	-	-	-	-	-	-
TOTALS, TRANSFERS AND LOANS	260,932	-127,111	133,821	68,168	7,087	75,255	92,749	11,796	104,545
TOTALS, REVENUES AND TRANSFERS.....	46,296,094	12,969,977	59,266,071	48,405,466	13,540,859	61,946,325	50,657,473	14,074,809	64,732,282

SCHEDULE 9

Appendix 25

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds
Executive/Constitutional Offices												
Office of the Lieutenant Governor												
State Operations	1,382	-	1,382	-	-	1,312	-	1,312	-	-	1,366	-
Department of Justice												
State Operations	188,806	57,916	246,722	-	17,062	208,621	58,853	267,474	-	17,144	212,853	60,926
Local Assistance	6,802	238	7,040	-	-	15,360	341	15,701	-	-	7,455	85
Capitol Outlay	-	-	-	-	-	877	-	877	-	-	3,231	-
Totals, Department of Justice	195,608	58,154	253,762	-	17,062	224,858	59,194	284,052	-	17,144	223,539	61,011
State Controller												
State Operations	61,929	4,791	66,720	816	1,129	62,098	5,054	67,152	820	2,107	62,102	5,075
Local Assistance	-	678	678	-	-	-	456	456	-	-	-	456
Totals, State Controller	61,929	5,469	67,398	816	1,129	62,098	5,510	67,608	820	2,107	62,102	5,531
Department of Insurance												
State Operations	-	104,445	104,445	-	-	-	101,235	101,235	-	-	-	90,413
Local Assistance	-	20,543	20,543	-	-	-	26,700	26,700	-	-	-	21,212
Totals, Department of Insurance	-	124,988	124,988	-	-	-	127,935	127,935	-	-	-	111,625
State Board of Equalization												
State Operations	171,932	17,061	188,993	-	80	183,381	19,331	202,712	-	178	180,940	21,006
Capital Outlay	90	-	90	-	-	-	-	-	-	-	-	-
Totals, State Board of Equalization	172,022	17,061	189,083	-	80	183,381	19,331	202,712	-	178	180,940	21,006
Secretary of State												
State Operations	18,190	20,202	38,392	-	-	30,568	22,074	52,642	-	-	28,329	24,191
Local Assistance	4,483	-	4,483	-	-	6,134	-	6,134	-	-	5,272	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	12	47
Totals, Secretary of State	22,673	20,202	42,875	-	-	36,702	22,074	58,776	-	-	33,613	24,238
State Treasurer												
State Operations	3,140	-	3,140	-	-	4,964	-	4,964	-	-	4,964	-
Calif Debt & Investment Advisory Comm	-	1,231	1,231	-	-	-	1,588	1,588	-	-	-	1,610
California Debt Limit Allocation Commit	-	360	360	-	-	-	411	411	-	-	-	415
State Operations	-	322	322	-	-	-	433	433	-	-	-	431
Calif Industrial Dev Financing Adv Comm	-	-	-	-	-	-	-	-	-	-	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96					Estimated 1996-97					Estimated 1997-98				
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
California Tax Allocation Committee	-	1,360	1,360	-	-	-	1,567	1,567	-	-	-	1,578	1,578	-	-
State Operations	-	136	136	-	-	-	136	136	-	-	-	136	136	-	-
Local Assistance	-	1,496	1,496	-	-	-	1,703	1,703	-	-	-	1,714	1,714	-	-
Totals, California Tax Allocation Committee ..	-	229,283	686,037	816	18,271	513,315	238,179	751,494	820	19,429	506,524	227,581	734,105	520	17,758
Totals, Executive/Constitutional Offices.....	456,754														
TOTALS, LEGISLATIVE, JUDICIAL, AND EXECUTIVE...	1,435,196	253,653	1,688,849	816	371,886	1,575,123	253,407	1,828,530	820	477,660	1,361,556	241,919	1,603,475	520	477,825
State Operations.....	856,990	205,254	1,062,244	816	39,214	955,669	216,326	1,171,995	820	57,210	989,922	207,950	1,197,872	520	57,375
Local Assistance.....	578,116	48,399	626,515	-	332,672	613,229	37,081	650,310	-	420,450	368,391	33,922	402,313	-	420,450
Capital Outlay	90	-	90	-	-	6,225	-	6,225	-	-	3,243	47	3,290	-	-
STATE AND CONSUMER SERVICES															
Secretary for State and Consumer Servic															
State Operations	719	-	719	-	-	732	-	732	-	-	732	-	732	-	-
Museum of Science and Industry															
State Operations	5,594	1,198	6,792	-	-	5,645	2,170	7,815	-	-	11,354	2,170	13,524	-	-
Dept of Consumer Affairs-Regulatory 8ds															
Board of Accountancy															
State Operations.....	-	8,340	8,340	-	-	-	9,351	9,351	-	-	-	9,585	9,585	-	-
Board of Architectural Examiners															
State Operations.....	-	3,821	3,821	-	-	-	2,829	2,829	-	-	-	2,853	2,853	-	-
Athletic Commission															
State Operations.....	670	250	920	-	-	678	265	943	-	-	801	306	1,107	-	-
Board of Barbering and Cosmetology															
State Operations.....	-	7,210	7,210	-	-	-	8,038	8,038	-	-	-	-	-	-	-
Board of Behavioral Science Examiners															
State Operations.....	-	4,474	4,474	-	-	-	4,656	4,656	-	-	-	4,144	4,144	-	-
Cemetery Board															
State Operations.....	-	211	211	-	-	-	-	-	-	-	-	-	-	-	-
Contractors State License Board															
State Operations.....	-	38,480	38,480	-	-	-	40,265	40,265	-	-	-	41,131	41,131	-	-
Board of Dentistry															
State Operations.....	-	6,006	6,006	-	-	-	5,713	5,713	-	-	-	5,576	5,576	-	-
Committee on Dental Auxiliaries															
State Operations.....	-	999	999	-	-	-	1,124	1,124	-	-	-	1,026	1,026	-	-
Board of Funeral Directors and Embalmers															
State Operations.....	-	387	387	-	-	-	-	-	-	-	-	-	-	-	-
Board of Reg for Geologists & Geophysicists															
State Operations.....	-	711	711	-	-	-	686	686	-	-	-	799	799	-	-
Board of Guide Dogs for the Blind															
State Operations.....	-	46	46	-	-	-	62	62	-	-	-	-	-	-	-
Board of Landscape Architects															
State Operations.....	-	467	467	-	-	-	508	508	-	-	-	-	-	-	-
Medical Board of California															
State Operations.....	-	32,067	32,067	-	-	-	33,119	33,119	-	-	-	32,032	32,032	-	-
Acupuncture Examining Committee															
State Operations.....	-	1,177	1,177	-	-	-	1,236	1,236	-	-	-	1,166	1,166	-	-
Hearing Aid Dispensers Examining Commit															
State Operations.....	-	406	406	-	-	-	637	637	-	-	-	578	578	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96					Estimated 1996-97					Estimated 1997-98				
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
Physical Therapy Examining Committee State Operations.....	-	1,149	1,149	-	-	-	1,556	1,556	-	-	-	1,910	1,910	-	-
Physicians Assistant Examining Committee State Operations.....	-	700	700	-	-	-	749	749	-	-	-	759	759	-	-
Podiatric Medicine, Board of State Operations.....	-	824	824	-	-	-	984	984	-	-	-	967	967	-	-
Psychology, Board of State Operations.....	-	2,525	2,525	-	-	-	2,778	2,778	-	-	-	2,761	2,761	-	-
Respiratory Care Examining Committee State Operations.....	-	1,456	1,456	-	-	-	2,078	2,078	-	-	-	2,056	2,056	-	-
Speech-Language Pathology & Audiology Exam State Operations.....	-	292	292	-	-	-	349	349	-	-	-	296	296	-	-
Board of Nursing Home Administrators State Operations.....	-	450	450	-	-	-	432	432	-	-	-	450	450	-	-
Board of Optometry State Operations.....	-	869	869	-	-	-	1,075	1,075	-	-	-	999	999	-	-
Board of Pharmacy State Operations.....	-	4,632	4,632	-	-	-	6,094	6,094	-	-	-	5,588	5,588	-	-
Board of Reg for Prof Engineer & Lnd Surv State Operations.....	-	6,001	6,001	-	-	-	6,442	6,442	-	-	-	6,516	6,516	-	-
Board of Registered Nursing State Operations.....	-	12,502	12,502	-	-	-	12,365	12,365	-	-	-	11,492	11,492	-	-
Court Reporters Board of California State Operations.....	-	786	786	-	-	-	879	879	-	-	-	846	846	-	-
Structural Pest Control Board State Operations.....	-	2,991	2,991	-	-	-	3,352	3,352	-	-	-	3,517	3,517	-	-
Veterinary Medical Board State Operations.....	-	1,108	1,108	-	-	-	1,208	1,208	-	-	-	1,180	1,180	-	-
Registered Veterinary Techn Exam Comm State Operations.....	-	82	82	-	-	-	97	97	-	-	-	104	104	-	-
Board of Vocational Nurse Program State Operations.....	-	3,514	3,514	-	-	-	3,215	3,215	-	-	-	2,989	2,989	-	-
Board of Psychiatric Technician Program State Operations.....	-	1,068	1,068	-	-	-	900	900	-	-	-	892	892	-	-
Totals, Dept of Consumer Affairs-Regulatory Bd ..	670	146,001	146,671	-	-	678	153,042	153,720	-	-	801	142,518	143,319	-	-
Dept Consumer Affairs-Bureaus Prog.Div State Operations	-	103,802	103,802	-	-	-	105,295	105,295	-	-	880	110,058	110,938	-	-
Dept of Fair Employment and Housing State Operations	12,699	-	12,699	-	3,626	12,225	-	12,225	-	4,403	14,712	-	14,712	-	3,976
Fair Employment and Housing Commission State Operations	772	-	772	-	-	779	-	779	-	-	1,082	-	1,082	-	-
Office of the State Fire Marshal State Operations	2,722	4,127	6,849	-	750	-	-	-	-	-	-	-	-	-	-
Franchise Tax Board State Operations	300,677	7,980	308,657	-	-	335,238	8,087	343,325	-	-	333,885	8,151	342,036	-	-
Local Assistance	3,100	-	3,100	-	-	3,666	-	3,666	-	-	-	-	-	-	-
Capital Outlay	327	-	327	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Franchise Tax Board	304,104	7,980	312,084	-	-	338,904	8,087	346,991	-	-	333,885	8,151	342,036	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98						
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
Department of General Services															
State Operations	11,004	43,964	54,968	1,054	5	11,244	54,131	65,375	938	-	11,243	55,956	67,199	833	-
Local Assistance	-	63,731	63,731	7,344	-	-	64,958	64,958	25,999	-	-	71,774	71,774	-	-
Capital Outlay	1,158	-	1,158	17,640	-	-	-	-	113,798	-	-	-	-	47,295	-
Totals, Department of General Services	12,162	107,695	119,857	26,038	5	11,244	119,089	130,333	140,735	-	11,243	127,730	138,973	48,128	-
State Personnel Board															
State Operations	5,324	-	5,324	-	-	5,393	-	5,393	-	-	5,612	-	5,612	-	-
TOTALS, STATE AND CONSUMER SERVICES	344,766	370,803	715,569	26,038	4,381	375,600	387,683	763,283	140,735	4,403	380,301	390,627	770,928	48,128	3,976
State Operations	340,181	307,072	647,253	1,054	4,381	371,934	322,725	694,659	938	4,403	380,301	318,853	699,154	833	3,976
Local Assistance	3,100	63,731	66,831	7,344	-	3,666	64,958	68,624	25,999	-	-	71,774	71,774	-	-
Capital Outlay	1,485	-	1,485	17,640	-	-	-	-	113,798	-	-	-	-	47,295	-
BUSINESS, TRANSPORTATION, AND HOUSING															
Business and Housing															
Sec for Business,Transport and Housing															
State Operations	-	810	810	-	-	-	830	830	-	-	-	880	880	-	-
Dept of Alcoholic Beverage Control															
State Operations	-	27,297	27,297	-	-	-	28,758	28,758	-	-	-	29,053	29,053	-	-
Local Assistance	-	1,500	1,500	-	-	-	-	-	-	-	-	1,000	1,000	-	-
Totals, Dept of Alcoholic Beverage Control...	-	28,797	28,797	-	-	-	28,758	28,758	-	-	-	30,053	30,053	-	-
Alcoholic Beverage Control Appeals 8d															
State Operations	-	491	491	-	-	-	535	535	-	-	-	550	550	-	-
State Banking Department															
State Operations	-	15,814	15,814	-	-	-	16,235	16,235	-	-	-	-	-	-	-
Department of Financial Institutions															
State Operations	-	-	-	-	-	-	-	-	-	-	-	19,145	19,145	-	-
Dept of Corporations															
State Operations	-	30,732	30,732	-	-	-	33,181	33,181	-	-	-	29,516	29,516	-	-
Dept of Housing & Community Development															
State Operations	4,438	4,267	8,705	3,536	4,506	4,535	3,527	8,062	1,510	4,949	4,469	3,617	8,086	2,135	4,818
Local Assistance	5,587	-	5,587	7,959	92,618	6,326	-	6,326	-	106,321	6,904	-	6,904	-	99,000
Totals, Dept of Housing & Community Development...	10,025	4,267	14,292	11,495	97,124	10,861	3,527	14,388	1,510	111,270	11,373	3,617	14,990	2,135	103,818
Office of Real Estate Appraisers															
State Operations	-	3,223	3,223	-	-	-	3,783	3,783	-	-	-	3,821	3,821	-	-
Dept of Real Estate															
State Operations	-	24,484	24,484	-	-	-	24,612	24,612	-	-	-	26,492	26,492	-	-
Office of Savings and Loan															
State Operations	-	333	333	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Business and Housing	10,025	108,951	118,976	11,495	97,124	10,861	111,461	122,322	1,510	111,270	11,373	114,074	125,447	2,135	103,818
Transportation															
California Transportation Commission															
State Operations	-	1,280	1,280	907	-	-	1,421	1,421	983	-	-	1,463	1,463	983	-
Local Assistance	-	-	-	195,791	-	-	-	-	200,000	-	-	-	-	225,000	-
Totals, California Transportation Commission ..	-	1,280	1,280	196,698	-	-	1,421	1,421	200,983	-	-	1,463	1,463	225,983	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds	General Fund	Special Funds
Special Transportation Programs	-	71,000	71,000	-	-	-	76,100	76,100	-	-	-	84,800
Local Assistance	-	1,387,069	1,387,069	294	320,951	-	1,408,692	1,408,692	194,406	247,133	-	1,501,144
Dept of Transportation	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	-	2,833	2,833	-	-	-	9,154	9,154	-	-	-	6,996
Aeronautics Program	-	236,600	236,600	-	606,150	-	199,754	199,754	-	587,484	-	282,711
Highway Transportation Program	-	73,781	73,781	-	23,882	-	65,398	65,398	-	28,118	-	110,246
Mass Transportation Program	-	-	-	-	27,759	-	-	-	-	21,000	-	-
Transportation Planning Program	-	-	-	-	-	108	-	-	-	-	-	-
State-Mandated Local Programs	-	313,214	313,214	-	657,791	108	274,414	274,414	-	636,602	-	399,953
Tariffs, Local Assistance	-	274,155	274,155	-	1,086,469	-	715,892	715,892	127,536	925,059	-	757,395
Capital Outlay	-	1,974,438	1,974,438	294	2,065,211	108	2,398,890	2,398,890	321,942	1,808,794	-	2,658,492
Totals, Dept of Transportation	-	-	-	-	-	-	-	-	-	-	-	-
Office of Traffic Safety	-	329	329	-	18,875	-	336	336	-	14,499	-	334
State Operations	-	-	-	-	10,457	-	-	-	-	10,682	-	-
Local Assistance	-	329	329	-	29,332	-	336	336	-	25,181	-	334
Totals, Office of Traffic Safety	-	-	-	-	-	-	-	-	-	-	-	-
Dept of the California Highway Patrol	-	695,438	695,438	-	4,026	3,462	728,634	732,096	-	4,695	3,462	784,717
State Operations	9	-	9	-	-	191	-	191	-	-	-	-
Local Assistance	-	16,871	16,871	-	-	-	11,441	11,441	-	-	-	7,353
Capital Outlay	-	-9,200	-9,200	-	-	-	-	-	-	-	-	-
Unclassified	-	703,109	703,118	-	4,026	3,653	740,075	743,728	-	4,695	3,462	792,070
Totals, Dept of the California Highway Patrol	-	-	-	-	-	-	-	-	-	-	-	-
Department of Motor Vehicles	60	500,477	500,537	-	98	58	517,363	517,421	-	96	60	545,545
State Operations	-	8,672	8,672	-	-	-	9,715	9,715	-	-	-	7,612
Capital Outlay	-	-3,000	-3,000	-	-	-	-	-	-	-	-	-
Unclassified	60	506,149	506,209	-	98	58	527,078	527,136	-	96	60	553,157
Totals, Department of Motor Vehicles	69	3,256,305	3,256,374	196,992	2,098,667	3,819	3,743,900	3,747,719	522,925	1,838,766	3,522	4,093,838
Totals, Transportation	-	-	-	-	-	-	-	-	-	-	-	-
Statewide Distributed Costs	262,857	-	262,857	-	-	288,422	-	288,422	-	-	273,609	-
General Obligation Bonds-8T&H	262,857	-	262,857	-	-	288,422	-	288,422	-	-	273,609	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Statewide Distributed Costs	-	-	-	-	-	-	-	-	-	-	-	-
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING ..	272,951	3,365,256	3,638,207	208,487	2,195,791	303,102	3,855,361	4,158,463	524,435	1,950,036	288,504	4,204,390
State Operations	267,355	2,692,044	2,959,399	4,737	349,456	296,477	2,767,907	3,064,384	196,899	271,372	281,600	2,946,277
Local Assistance	5,596	385,714	391,310	203,750	760,866	6,625	350,406	357,031	200,000	753,605	6,904	485,753
Capital Outlay	-	299,698	299,698	-	1,086,469	-	737,048	737,048	127,536	925,059	-	772,360
Unclassified	-	-12,200	-12,200	-	-	-	-	-	-	-	-	-

SCHEDULE 9—Continued

Estimated 1997-98

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98						
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
Department of Forestry and Fire Protect															
State Operations	313,167	4,466	317,633	-	7,180	367,262	10,503	377,765	19	14,697	279,287	7,380	286,667	26	9,124
Local Assistance	-	-	-	617	1,193	-	-	-	633	479	-	-	-	400	479
Capital Outlay	8,604	-	8,604	7	-	20,154	-	20,154	-	-	19,493	-	19,493	-	-
Totals, Department of Forestry and Fire Protect	321,771	4,466	326,237	624	8,373	387,416	10,503	397,919	652	15,176	298,780	7,380	306,160	426	9,603
State Lands Commission															
State Operations	9,444	4,902	14,346	-	-	9,619	4,892	14,511	-	-	9,419	4,877	14,296	-	-
Seismic Safety Commission															
State Operations	649	-94	555	361	-	783	-	783	578	-	783	-	783	353	-
Department of Fish and Game															
State Operations	3,113	119,751	122,864	-	22,897	3,116	113,806	116,922	-	27,320	5,097	120,208	125,305	10,407	29,139
Local Assistance	-	-90	-90	-	-	-	805	805	-	-	-	452	452	500	-
Capital Outlay	-	2,868	2,868	99	10	-	535	535	218	200	55	1,447	1,502	200	110
Totals, Department of Fish and Game	3,113	122,529	125,642	99	22,907	3,116	115,146	118,262	218	27,520	5,152	122,107	127,259	11,107	29,249
Wildlife Conservation Board															
State Operations	-	5,337	5,337	3,100	-	-	6,629	6,629	1,300	-	-	6,442	6,442	1,300	-
Local Assistance	-	5,600	5,600	-	-	-	2,460	2,460	-	-	-	4,270	4,270	-	-
Capital Outlay	-	10,505	10,505	6,044	-	-	17,221	17,221	10,071	-	-	12,037	12,037	12,261	-
Totals, Wildlife Conservation Board	-	21,442	21,442	9,144	-	-	26,310	26,310	11,371	-	-	22,749	22,749	13,561	-
Dept of Boating & Waterways															
State Operations	-	-	-	-	2,240	-	-	-	-	2,754	-	-	-	-	1,100
Local Assistance	3,718	-	3,718	-	984	-	-	-	-	931	-	-	-	-	2,442
Unclassified	-	26,848	26,848	-	-	-	28,155	28,155	-	-	-	29,850	29,850	-	-
Totals, Dept of Boating & Waterways	3,718	26,848	30,566	-	3,224	-	28,155	28,155	-	3,685	-	29,850	29,850	-	3,542
California Coastal Commission															
State Operations	5,573	1,223	6,796	-	3,556	5,650	1,298	6,948	-	3,238	5,750	1,242	6,992	-	3,008
Local Assistance	169	-	169	-	-	-	-	-	-	-	500	-	500	-	-
Totals, California Coastal Commission	5,742	1,223	6,965	-	3,556	5,650	1,298	6,948	-	3,238	6,250	1,242	7,492	-	3,008
State Coastal Conservancy															
State Operations	-	-	-	1,561	28	-	-	-	2,999	270	170	-	170	955	87
Local Assistance	970	4,075	5,045	220	-	450	-	450	-	-	-	-	-	-	-
Capital Outlay	297	2,514	2,811	157	102	-	9,468	9,468	3,475	1,080	12,589	4,000	16,589	10,325	1,500
Totals, State Coastal Conservancy	1,267	6,589	7,856	1,938	130	450	9,468	9,918	6,474	1,350	12,759	4,000	16,759	11,280	1,587
Dept of Parks and Recreation															
State Operations	49,012	113,577	162,589	3,878	2,075	66,067	106,313	172,380	2,972	2,230	65,164	106,802	171,966	2,417	2,895
Local Assistance	-	14,317	14,317	10,227	3,707	780	20,076	20,856	4,814	7,172	-	17,613	17,613	-	5,950
Capital Outlay	830	7,292	8,122	7,514	153	6,105	20,329	26,434	18,240	1,780	6,804	10,357	17,161	4,729	600
Totals, Dept of Parks and Recreation	49,842	135,186	185,028	21,619	5,935	72,952	146,718	219,670	26,026	11,182	71,968	134,772	206,740	7,146	9,445

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96					Estimated 1996-97					Estimated 1997-98				
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
Santa Monica Mountains Conservancy															
State Operations	96	-	96	-	-	-	96	96	-	-	-	96	96	-	-
Capital Outlay	-	1,046	1,046	-	-	-	11	11	-	-	-	-	-	5,000	-
Totals, Santa Monica Mountains Conservancy.....	96	1,046	1,142	-	-	-	107	107	-	-	-	96	96	5,000	-
San Francisco Bay Conserv & Develop Com															
State Operations	1,670	95	1,765	-	17	1,632	60	1,692	-	143	1,632	150	1,782	-	106
San Joaquin River Conservancy															
State Operations	-	-	-	-	-	-	94	94	-	-	-	164	164	-	-
Capital Outlay	-	-	-	-	-	-	40	40	-	-	-	-	-	-	-
Totals, San Joaquin River Conservancy	-	-	-	-	-	-	134	134	-	-	-	164	164	-	-
Delta Protection Commission															
State Operations	-	194	194	-	-	-	188	188	-	-	-	184	184	-	-
Coachella Valley Mountains Conservancy															
State Operations	-	-	-	-	-	-	99	99	-	-	-	129	129	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	40	40	-	-
Totals, Coachella Valley Mountains Conservancy.....	-	-	-	-	-	-	99	99	-	-	-	169	169	-	-
Department of Water Resources															
State Operations	16,316	10,229	26,545	830	2,455	16,124	15,829	31,953	34,114	4,483	17,136	15,698	32,834	37,686	4,483
Local Assistance	-	12,874	12,874	320	-	60	14,173	14,233	96,022	-	-	22,458	22,458	103,176	-
Capital Outlay	3,480	1	3,481	-	-	12,877	1,575	14,452	3,100	-	10,052	-	10,052	600	-
Totals, Department of Water Resources	19,796	23,104	42,900	1,150	2,455	29,061	31,577	60,638	133,236	4,483	27,188	38,156	65,344	141,462	4,483
General Obligation Bonds-Resources															
State Operations	345,137	-	345,137	-	-	236,581	-	236,581	-	-	222,198	-	222,198	-	-
TOTALS, RESOURCES	812,314	745,305	1,557,619	35,832	65,233	809,543	842,692	1,652,235	179,480	93,262	716,144	896,942	1,613,086	197,700	86,580
State Operations.....	789,237	651,427	1,440,664	10,627	59,084	754,971	721,297	1,476,268	42,907	81,620	657,305	789,941	1,447,246	54,509	75,499
Local Assistance.....	8,911	42,416	51,327	11,384	5,884	7,708	42,552	50,260	101,469	8,582	7,226	48,734	55,960	106,076	8,871
Capital Outlay	14,166	24,614	38,780	13,821	265	46,864	50,688	97,552	35,104	3,060	51,613	28,417	80,030	37,115	2,210
Unclassified	-	26,848	26,848	-	-	-	28,155	28,155	-	-	-	29,850	29,850	-	-
CALIF ENVIRONMENTAL PROTECTION AGENCY															
Secretary for Environmental Protection															
State Operations	-	755	755	-	-	-	824	824	-	-	-	813	813	-	-
State Air Resources Board															
State Operations	-	92,460	92,460	-	7,780	-	87,881	87,881	-	9,953	-	85,357	85,357	-	10,019
Local Assistance	-	7,511	7,511	-	-	-	7,511	7,511	-	-	-	7,511	7,511	-	-
Totals, State Air Resources Board.....	-	99,971	99,971	-	7,780	-	95,392	95,392	-	9,953	-	92,868	92,868	-	10,019
Calif Integrated Waste Management Board															
State Operations	-	45,412	45,412	-	579	-	61,775	61,775	-	389	-	59,021	59,021	-	509
Local Assistance	-	22,486	22,486	-	354	-	18,478	18,478	-	-	-	16,978	16,978	-	-
Totals, Calif Integrated Waste Management Board.....	-	67,898	67,898	-	933	-	80,253	80,253	-	389	-	75,999	75,999	-	509

SCHEDULE 9—ContinuedAppendix 34

SCHEDULE 9—Continued
EXPENSES BY ORGANIZATION
YEARS 1995-96, 1996-97, AND
(Dollars in Thousands)

Estimated 1997-98

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96					Estimated 1996-97					Estimated 1997-98				
	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds
Dept of Rehabilitation															
State Operations	40,110	-	40,110	-	213,464	38,487	-	38,487	-	218,573	38,101	-	38,101	-	224,043
Local Assistance	71,077	-	71,077	-	7,464	79,749	-	79,749	-	7,462	79,710	-	79,710	-	7,462
Capital Outlay	159	-	159	-	309	15	-	15	-	25	-	-	-	-	-
Totals, Dept of Rehabilitation	111,346	-	111,346	-	221,237	118,251	-	118,251	-	226,060	117,811	-	117,811	-	231,505
Dept of Social Services															
State Operations	84,428	1,289	85,717	-	261,895	75,580	1,831	77,411	-	269,241	66,657	2,431	69,088	-	282,796
Local Assistance															
AFDC	2,712,369	-	2,712,369	-	2,806,037	2,228,743	-	2,228,743	-	2,896,289	1,965,700	-	1,965,700	-	2,639,392
Foster Care	293,226	-	293,226	-	460,444	336,312	-	336,312	-	394,665	353,826	-	353,826	-	569,208
SSI/SSP	2,050,551	-	2,050,551	-	-	2,069,920	-	2,069,920	-	-	1,660,334	-	1,660,334	-	-
Refugee Cash Assistance	-	-	-	-	12,250	-	-	-	-	8,088	-	-	-	-	8,160
County Administration	433,203	-	433,203	-	996,989	438,523	-	438,523	-	1,049,259	495,453	-	495,453	-	1,060,970
Community Care Licensing	3,374	-	3,374	-	6,828	5,359	-	5,359	-	5,960	6,812	-	6,812	-	6,960
Employment Services	86,900	-	86,900	-	168,209	101,974	-	101,974	-	205,130	127,801	-	127,801	-	226,096
Child Welfare Services	339,355	-	339,355	-	515,769	332,279	-	332,279	-	588,864	349,652	-	349,652	-	560,951
Special Programs	18,933	-	18,933	-	42,284	18,948	-	18,948	-	30,222	18,952	-	18,952	-	27,275
Other Programs	446,623	-	446,623	-	374,889	586,724	-	586,724	-	386,685	676,301	-	676,301	-	342,967
Totals, Local Assistance	6,384,534	-	6,384,534	-	5,383,699	6,118,782	-	6,118,782	-	5,565,162	5,654,583	248	5,654,831	-	5,441,979
Totals, Dept of Social Services	6,468,962	1,289	6,470,251	-	5,645,594	6,194,362	1,831	6,196,193	-	5,834,403	5,721,240	2,679	5,723,919	-	5,724,775
State-Local Realignment															
Local Assistance	-	2,428,816	2,428,816	-	-	-	2,523,848	2,523,848	-	-	-	2,681,738	2,681,738	-	-
General Obligation Bonds-H&W															
State Operations	4,439	-	4,439	-	-	4,268	-	4,268	-	-	4,094	-	4,094	-	-
TOTALS, HEALTH AND WELFARE	14,263,715	2,982,790	17,246,505	-	20,172,793	14,892,438	3,125,772	18,018,210	-	21,423,392	14,536,972	3,320,384	17,857,356	-	21,637,169
State Operations	603,164	193,389	796,553	-	1,415,204	622,940	227,987	850,927	-	1,512,695	653,930	235,966	889,896	-	1,476,066
Local Assistance	13,660,244	2,789,318	16,449,562	-	18,754,908	14,247,619	2,897,785	17,145,404	-	19,904,563	13,869,838	3,084,418	16,954,256	-	20,161,103
Capital Outlay	307	83	390	-	2,681	21,879	-	21,879	-	6,134	13,204	-	13,204	-	-
YOUTH AND ADULT CORRECTIONAL AGENCY															
Sec for Youth and Adult Corrections															
State Operations	996	-	996	-	2,947	1,082	-	1,082	-	-	1,082	-	1,082	-	-
Dept of Corrections															
State Operations	3,179,615	-	3,179,615	13,085	7	3,429,585	-	3,429,585	8,997	4,305	3,681,058	-	3,681,058	-	5,376
Local Assistance															
Transportation of Prisoners	196	-	196	-	-	410	-	410	-	-	196	-	196	-	-
Returning Fugitives	1,936	-	1,936	-	-	2,432	-	2,432	-	-	2,006	-	2,006	-	-
Court Costs and County Charges	-	-	-	-	-	6,597	-	6,597	-	-	7,237	-	7,237	-	-
Asst to Counties for Detention of Parolees	22,597	-	22,597	-	-	14,697	-	14,697	-	-	14,697	-	14,697	-	-
Totals, Local Assistance	31,966	-	31,966	-	-	24,136	-	24,136	-	-	24,136	-	24,136	-	-
Capital Outlay	5,070	-	5,070	21,078	-	5,001	-	5,001	17,960	-	40,394	-	40,394	12,491	41,455
Totals, Dept of Corrections	3,216,651	-	3,216,651	34,163	7	3,458,722	-	3,458,722	26,957	4,305	3,745,588	-	3,745,588	12,491	46,831

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds
Board of Corrections												
State Operations	2,685	2,128	4,813	1,169	3	2,949	2,139	5,088	1,392	-	3,548	2,141
Local Assistance	1,101	8,705	9,806	49,685	-	4,559	8,055	12,614	10,737	-	24,597	8,022
Totals, Board of Corrections	3,786	10,833	14,619	50,854	3	7,508	10,194	17,702	12,129	-	28,145	10,163
Board of Prison Terms												
State Operations	10,804	-	10,804	-	-	12,300	-	12,300	-	-	13,094	-
Youthful Offender Parole Board												
State Operations	3,085	-	3,085	-	-	3,262	-	3,262	-	-	3,416	-
Dept of Youth Authority												
State Operations	358,027	-	358,027	698	1,861	355,329	-	355,329	160	1,475	321,952	154
Local Assistance												
Transportation of Wards	46	-	46	-	-	92	-	92	-	-	92	-
Asst to Counties for Detention of Parolees,	2,690	-	2,690	-	-	2,827	-	2,827	-	-	2,827	-
Regional Youth Education Centers	-	-	-	11,722	-	-	-	-	8,979	-	-	5,000
County Correction Facility (Juvenile Facility)	-	-	-	409	-	-	-	-	604	-	-	-
Yg Men as Fathers Preventing/Mentor Prog.	-	-	-	-	-	2,702	-	2,702	-	-	2,702	-
Assistance for Juvenile Camps/Ranches,	32,700	-	32,700	-	-	32,700	-	32,700	-	-	32,700	-
Totals, Local Assistance	35,436	-	35,436	12,131	-	38,321	-	38,321	9,583	-	38,321	5,000
Capital Outlay	-	-	-	3,905	-	2,600	-	2,600	4,776	-	17,033	-
Totals, Dept of Youth Authority	393,463	-	393,463	16,734	1,861	396,250	-	396,250	14,519	1,475	377,306	5,154
Federal Immigration Funding-Incarceration												
State Operations	-30,509	-	-30,509	-	30,509	-441,000	-	-441,000	-	441,000	-298,700	-
General Obligation Bonds-VAC												
State Operations	347,744	-	347,744	-	-	395,866	-	395,866	-	-	386,758	-
TOTALS, YOUTH AND ADULT CORRECTIONAL AGENCY	3,946,020	10,833	3,956,853	101,751	35,327	3,833,990	10,194	3,844,184	53,605	446,780	4,256,689	10,163
State Operations	3,872,447	2,128	3,874,575	14,952	35,327	3,759,373	2,139	3,761,512	10,549	446,780	4,112,208	2,141
Local Assistance	68,503	8,705	77,208	61,816	-	67,016	8,055	75,071	20,320	-	87,054	8,022
Capital Outlay	5,070	-	5,070	24,983	-	7,601	-	7,601	22,736	-	57,427	-
EDUCATION												
K thru 12 Education												
Sec fr Child Dev & Education, K-12												
State Operations	2,071	-	2,071	-	1,120	2,084	-	2,084	-	1,274	2,084	-
Local Assistance	5,000	-	5,000	-	16,009	-	-	-	-	18,500	10,000	-
Totals, Sec fr Child Dev & Education, K-12	7,071	-	7,071	-	17,129	2,084	-	2,084	-	19,774	12,084	-
Department of Education												
Department of Education												
State Operations	79,060	3,004	82,064	-	72,479	85,211	3,474	88,685	-	78,097	86,948	3,579
Local Assistance												
Adult Education	442,678	-	442,678	-	33,104	465,698	-	465,698	-	25,681	465,698	-
Appointments - County Offices	137,340	-	137,340	-	-	179,193	-	179,193	-	-	194,815	-
Appointments - District	9,748,086	11,939	9,760,025	-	41,465	10,844,535	10,524	10,855,059	-	1,188	11,492,408	10,524
Child Development	482,917	-	482,917	-	128,345	542,482	-	542,482	-	244,239	592,546	-
Child Nutrition	10,990	-	10,990	-	984,161	11,686	-	11,686	-	987,460	11,364	-
Consolidated Categorical Programs	2,194,610	-	2,194,610	-	-	2,394,351	-	2,394,351	-	-	2,373,695	-
TOTALS, DEPARTMENT OF EDUCATION	12,911,101	14,943	12,926,044	24,983	1,146,999	13,144,044	14,024	13,158,068	20,320	2,319,471	14,943,643	20,320
State Operations	12,832,031	11,939	12,843,970	14,952	1,128,345	13,044,535	10,524	13,055,059	10,549	2,244,239	14,868,016	10,524
Local Assistance	87,870	3,004	90,874	24,983	118,654	109,509	-	109,509	20,320	87,432	109,509	8,000
Capital Outlay	10,200	-	10,200	-	984,161	11,686	-	11,686	-	987,460	11,364	-
TOTALS, DEPARTMENT OF EDUCATION	12,911,101	14,943	12,926,044	24,983	1,146,999	13,144,044	14,024	13,158,068	20,320	2,319,471	14,943,643	20,320
State Operations	12,832,031	11,939	12,843,970	14,952	1,128,345	13,044,535	10,524	13,055,059	10,549	2,244,239	14,868,016	10,524
Local Assistance	87,870	3,004	90,874	24,983	118,654	109,509	-	109,509	20,320	87,432	109,509	8,000
Capital Outlay	10,200	-	10,200	-	984,161	11,686	-	11,686	-	987,460	11,364	-
TOTALS, DEPARTMENT OF EDUCATION	12,911,101	14,943	12,926,044	24,983	1,146,999	13,144,044	14,024	13,158,068	20,320	2,319,471	14,943,643	20,320

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds
Drugs and Tobacco Use Prevention Ed.	-	16,528	16,528	-	36,968	-	42,074	42,074	-	36,844	-	34,437
Emergency Apportionment Loan Repayment.	105,260	-	105,260	-	-	143,233	-	143,233	-	-	187,533	-
Indian Education.....	476	-	476	-	-	376	-	376	-	-	376	-
Regional Occupational Certifs/Prog (ROCP)...	250,138	-	250,138	-	-	271,694	-	271,694	-	-	271,694	-
Special Education.....	1,731,152	-	1,731,152	-	252,573	1,860,372	-	1,860,372	-	255,016	2,035,851	-
Specialized Instruc & School Improvement.	761,206	595	761,801	-	897,140	889,803	800	890,603	-	919,234	1,368,625	990
State-Mandated Local Programs.....	238,846	-	238,846	-	112,097	104,960	-	104,960	-	110,049	119,726	-
Vocational Education.....	8,093	-	8,093	-	-	8,093	-	8,093	-	-	7,469	-
Totals, Local Assistance.....	16,111,792	29,062	16,140,854	-	2,485,853	17,716,476	53,398	17,769,874	-	2,579,711	19,122,276	45,951
Totals, Department of Education.....	16,190,852	32,066	16,222,918	-	2,558,332	17,801,687	56,872	17,858,559	-	2,657,808	19,209,224	49,530
Est of Academic Contnt & Perf Stand.Cam	-	-	-	-	-	1,225	-	1,225	-	-	-	-
State Library	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	13,941	572	14,513	207	2,851	15,586	544	16,130	208	2,931	13,410	544
Local Assistance.....	22,287	-	22,287	-	11,901	30,208	-	30,208	-	11,830	31,590	-
Totals, State Library.....	36,228	572	36,800	207	14,752	45,794	544	46,338	208	14,761	45,000	544
Calif State Summer School for the Arts	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	637	-	637	-	-	639	-	639	-	-	639	-
Contributions to Teachers Relife Fund	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance.....	847,383	-	847,383	-	-	882,631	-	882,631	-	-	925,513	-
Retirement Costs for Community Colleges	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance.....	-72,028	-	-72,028	-	-	-73,258	-	-73,258	-	-	-76,818	-
Calif State Council on Vocational Educ	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	95	-	95	-	218	96	-	96	-	47	-	-
Calif Occupational Info Coord Committee	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	-	-	-	-	145	-	-	-	-	284	-	-
School Facilities Aid Program	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance.....	50,000	-10,093	39,907	1,438,600	85	-	-11,789	-11,789	722,675	2,150	-	-11,798
Commission on Teacher Credentialing	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	60	17,806	17,866	-	125	128	18,463	18,591	-	152	92	19,245
Local Assistance.....	8,658	-	8,658	-	-	3,478	-	3,478	-	-	8,328	-
Totals, Commission on Teacher Credentialing.	8,718	17,806	26,524	-	125	3,606	18,463	22,069	-	152	8,420	19,245
General Obligation Bonds-K-12	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	721,616	-	721,616	-	-	762,944	-	762,944	-	-	812,063	-
Totals, K thru 12 Education.....	17,790,572	40,351	17,830,923	1,438,807	2,590,786	19,427,448	64,090	19,491,538	722,883	2,694,976	20,936,125	57,521
Higher Education-Community Colleges	-	-	-	-	-	-	-	-	-	-	-	-
8d of Governors of Calif Comm Colleges	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	8,950	-	8,950	903	161	9,003	-	9,003	906	28	9,303	-
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-
Apportionments for Community Colleges	1,211,265	1,845	1,213,110	-	-	1,390,545	1,857	1,392,402	-	-	1,456,866	1,857
Earthquake camover (non-Prop 98).....	-	-	-	-	-	-	22	22	-	-	-	-
Extended Opportunity Program.....	45,355	-	45,355	-	-	57,456	-	57,456	-	-	59,474	-
Student Financial Aid Administration.....	6,532	-	6,532	-	-	6,856	-	6,856	-	-	7,146	-
Disabled Students.....	37,625	-	37,625	-	-	39,997	-	39,997	-	-	42,093	-
Totals, Higher Education.....	1,255,197	1,845	1,257,042	903	161	9,303	1,857	9,303	906	28	9,303	1,857
Totals, K thru 12 Education.....	17,790,572	40,351	17,830,923	1,438,807	2,590,786	19,427,448	64,090	19,491,538	722,883	2,694,976	20,936,125	57,521
Totals, Department of Education.....	16,190,852	32,066	16,222,918	-	2,558,332	17,801,687	56,872	17,858,559	-	2,657,808	19,209,224	49,530
Totals, State Library.....	36,228	572	36,800	207	14,752	45,794	544	46,338	208	14,761	45,000	544
Totals, State Summer School for the Arts	637	-	637	-	-	639	-	639	-	-	639	-
Totals, Contributions to Teachers Relife Fund	847,383	-	847,383	-	-	882,631	-	882,631	-	-	925,513	-
Totals, Retirement Costs for Community Colleges	-72,028	-	-72,028	-	-	-73,258	-	-73,258	-	-	-76,818	-
Totals, Calif State Council on Vocational Educ	95	-	95	-	218	96	-	96	-	47	-	-
Totals, Calif Occupational Info Coord Committee	-	-	-	-	-	-	-	-	-	-	-	-
Totals, School Facilities Aid Program	50,000	-10,093	39,907	1,438,600	85	-	-11,789	-11,789	722,675	2,150	-	-11,798
Totals, Commission on Teacher Credentialing	8,718	17,806	26,524	-	125	3,606	18,463	22,069	-	152	8,420	19,245
Totals, General Obligation Bonds-K-12	721,616	-	721,616	-	-	762,944	-	762,944	-	-	812,063	-
Totals, Higher Education.....	1,255,197	1,845	1,257,042	903	161	9,303	1,857	9,303	906	28	9,303	1,857
Totals, State Operations.....	8,950	-	8,950	903	161	9,003	-	9,003	906	28	9,303	-
Totals, Local Assistance.....	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Apportionments for Community Colleges	1,211,265	1,845	1,213,110	-	-	1,390,545	1,857	1,392,402	-	-	1,456,866	1,857
Totals, Earthquake camover (non-Prop 98).....	-	-	-	-	-	-	22	22	-	-	-	-
Totals, Extended Opportunity Program.....	45,355	-	45,355	-	-	57,456	-	57,456	-	-	59,474	-
Totals, Student Financial Aid Administration.....	6,532	-	6,532	-	-	6,856	-	6,856	-	-	7,146	-
Totals, Disabled Students.....	37,625	-	37,625	-	-	39,997	-	39,997	-	-	42,093	-
Totals, Department of Education.....	16,190,852	32,066	16,222,918	-	2,558,332	17,801,687	56,872	17,858,559	-	2,657,808	19,209,224	49,530
Totals, State Library.....	36,228	572	36,800	207	14,752	45,794	544	46,338	208	14,761	45,000	544
Totals, State Summer School for the Arts	637	-	637	-	-	639	-	639	-	-	639	-
Totals, Contributions to Teachers Relife Fund	847,383	-	847,383	-	-	882,631	-	882,631	-	-	925,513	-
Totals, Retirement Costs for Community Colleges	-72,028	-	-72,028	-	-	-73,258	-	-73,258	-	-	-76,818	-
Totals, Calif State Council on Vocational Educ	95	-	95	-	218	96	-	96	-	47	-	-
Totals, Calif Occupational Info Coord Committee	-	-	-	-	-	-	-	-	-	-	-	-
Totals, School Facilities Aid Program	50,000	-10,093	39,907	1,438,600	85	-	-11,789	-11,789	722,675	2,150	-	-11,798
Totals, Commission on Teacher Credentialing	8,718	17,806	26,524	-	125	3,606	18,463	22,069	-	152	8,420	19,245
Totals, General Obligation Bonds-K-12	721,616	-	721,616	-	-	762,944	-	762,944	-	-	812,063	-
Totals, Higher Education.....	1,255,197	1,845	1,257,042	903	161	9,303	1,857	9,303	906	28	9,303	1,857
Totals, State Operations.....	8,950	-	8,950	903	161	9,003	-	9,003	906	28	9,303	-
Totals, Local Assistance.....	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Apportionments for Community Colleges	1,211,265	1,845	1,213,110	-	-	1,390,545	1,857	1,392,402	-	-	1,456,866	1,857
Totals, Earthquake camover (non-Prop 98).....	-	-	-	-	-	-	22	22	-	-	-	-
Totals, Extended Opportunity Program.....	45,355	-	45,355	-	-	57,456	-	57,456	-	-	59,474	-
Totals, Student Financial Aid Administration.....	6,532	-	6,532	-	-	6,856	-	6,856	-	-	7,146	-
Totals, Disabled Students.....	37,625	-	37,625	-	-	39,997	-	39,997	-	-	42,093	-
Totals, Department of Education.....	16,190,852	32,066	16,222,918	-	2,558,332	17,801,687	56,872	17,858,559	-	2,657,808	19,209,224	49,530
Totals, State Library.....	36,228	572	36,800	207	14,752	45,794	544	46,338	208	14,761	45,000	544
Totals, State Summer School for the Arts	637	-	637	-	-	639	-	639	-	-	639	-
Totals, Contributions to Teachers Relife Fund	847,383	-	847,383	-	-	882,631	-	882,631	-	-	925,513	-
Totals, Retirement Costs for Community Colleges	-72,028	-	-72,028	-	-	-73,258	-	-73,258	-	-	-76,818	-
Totals, Calif State Council on Vocational Educ	95	-	95	-	218	96	-	96	-	47	-	-
Totals, Calif Occupational Info Coord Committee	-	-	-	-	-	-	-	-	-	-	-	-
Totals, School Facilities Aid Program	50,000	-10,093	39,907	1,438,600	85	-	-11,789	-11,789	722,675	2,150	-	-11,798
Totals, Commission on Teacher Credentialing	8,718	17,806	26,524	-	125	3,606	18,463	22,069	-	152	8,420	19,245
Totals, General Obligation Bonds-K-12	721,616	-	721,616	-	-	762,944	-	762,944	-	-	812,063	-
Totals, Higher Education.....	1,255,197	1,845	1,257,042	903	161	9,303	1,857	9,303	906	28	9,303	1,857
Totals, State Operations.....	8,950	-	8,950	903	161	9,003	-	9,003	906	28	9,303	-
Totals, Local Assistance.....	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Apportionments for Community Colleges	1,211,265	1,845	1,213,110	-	-	1,390,545	1,857	1,392,402	-	-	1,456,866	1,857
Totals, Earthquake camover (non-Prop 98).....	-	-	-	-	-	-	22	22	-	-	-	-
Totals, Extended Opportunity Program.....	45,355	-	45,355	-	-	57,456	-	57,456	-	-	59,474	-
Totals, Student Financial Aid Administration.....	6,532	-	6,532	-	-	6,856	-	6,856	-	-	7,146	-
Totals, Disabled Students.....	37,625	-	37,625	-	-	39,997	-	39,997	-	-	42,093	-
Totals, Department of Education.....	16,190,852	32,066	16,222,918	-	2,558,332	17,801,687	56,872	17,858,559	-	2,657,808	19,209,224	49,530
Totals, State Library.....	36,228	572	36,800	207	14,752	45,794	544	46,338	208	14,761	45,000	544
Totals, State Summer School for the Arts	637	-	637	-	-	639	-	639	-	-	639	-
Totals, Contributions to Teachers Relife Fund	847,383	-	847,383	-	-	882,631	-	882,631	-	-	925,513	-
Totals, Retirement Costs for Community Colleges	-72,028	-	-72,028	-	-	-73,258	-	-73,258	-	-	-76,818	-
Totals, Calif State Council on Vocational Educ	95	-	95	-	218	96	-	96	-	47	-	-
Totals, Calif Occupational Info Coord Committee	-	-	-	-	-	-	-	-	-	-	-	-
Totals, School Facilities Aid Program	50,000	-10,093	39,907	1,438,600	85	-	-11,789	-11,789	722,675	2,150	-	-11,798
Totals, Commission on Teacher Credentialing	8,718</											

SCHEDULE 9—Continued

Estimated 1997-98	Budget Total
50,309	452
1,859	5,233
1,630	9,073
589	-
-	8,000
-	15,000
-	14,000
-	39,000
-	500
-	11,418
-	53,209
-	1,691
-	1,779,399
-	1,788,702
68,415	
76,818	
1,933,935	
2,750	
119	
2,869	
2,227,313	
-	
2,227,313	
12,274	
-	
12,274	
2,503,134	
-	
2,503,134	

Appendix 40

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98						
	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Band Funds	Federal Funds
Council for Private Postsecn & Voc Educ	-	4,240	4,240	-	989	-	5,263	5,263	-	1,000	-	4,707	4,707	-	1,000
State Operations															
Student Aid Commission	6,245	-	6,245	-	335,506	6,213	-	6,213	-	344,574	11,845	-	11,845	-	346,465
State Operations	230,523	-	230,523	-	10,592	258,544	-	258,544	-	5,118	283,208	-	283,208	-	7,977
Local Assistance															
Totals, Student Aid Commission	236,768	-	236,768	-	346,098	264,757	-	264,757	-	349,692	295,053	-	295,053	-	354,442
General Obligation Bonds-Hi Ed															
State Operations	132,125	-	132,125	-	-	162,950	-	162,950	-	-	171,639	-	171,639	-	-
Totals, Higher Education-UC, CSU and Other	3,930,839	635,300	4,566,139	38,499	4,021,785	4,328,419	666,250	5,014,669	365,638	4,102,085	4,561,553	655,436	5,216,989	332,499	4,108,176
TOTALS, EDUCATION	23,321,664	677,496	23,999,160	1,526,691	6,614,503	25,538,905	752,219	26,291,124	1,233,227	6,797,089	27,429,756	714,814	28,144,570	621,631	7,281,268
State Operations	4,582,194	656,682	5,238,876	-663	4,084,063	5,011,624	708,731	5,720,355	17,895	4,175,568	5,271,180	678,804	5,949,984	1,114	4,186,446
Local Assistance	18,739,470	20,814	18,760,284	1,438,600	2,530,440	20,527,281	43,488	20,570,769	722,675	2,621,521	22,158,576	36,010	22,194,566	134,843	3,094,822
Capital Outlay	-	-	-	88,754	-	-	-	-	492,657	-	-	-	-	485,674	-
GENERAL GOVERNMENT															
General Administration															
Office of Criminal Justice Planning	3,323	1,485	4,808	-	3,727	3,433	1,550	4,983	-	5,101	3,433	1,544	4,977	-	5,373
State Operations	25,530	14,964	40,494	-	70,517	35,051	15,996	51,047	-	93,868	32,715	16,546	49,261	-	95,619
Local Assistance															
Totals, Office of Criminal Justice Planning	28,853	16,449	45,302	-	74,244	38,484	17,546	56,030	-	98,969	36,148	18,090	54,238	-	100,992
Comm on Peace Officer Standards & Train															
State Operations	-	16,115	16,115	-	-	-	19,137	19,137	-	-	-	19,054	19,054	-	-
Local Assistance	-	14,414	14,414	-	-	-	20,860	20,860	-	-	-	22,381	22,381	-	-
Totals, Comm on Peace Officer Standards & Train	-	30,529	30,529	-	-	-	39,997	39,997	-	-	-	41,435	41,435	-	-
State Public Defender															
State Operations	8,473	-	8,473	-	-	8,576	-	8,576	-	-	8,576	-	8,576	-	-
Pay to Count for Cost of Homicide Trial															
Local Assistance	5,850	-	5,850	-	-	7,000	-	7,000	-	-	7,000	-	7,000	-	-
Califarnio Arts Council															
State Operations	1,738	143	1,881	-	448	1,894	105	1,999	-	617	1,955	210	2,165	-	617
Local Assistance	10,451	190	10,641	-	660	10,751	335	11,086	-	170	10,490	435	10,925	-	170
Totals, California Arts Council	12,189	333	12,522	-	1,108	12,645	440	13,085	-	787	12,445	645	13,090	-	787
Native American Heritage Commission															
State Operations	233	-	233	-	-	308	-	308	-	-	310	-	310	-	-
Agricultural Labor Relations Board															
State Operations	3,998	-	3,998	-	-	4,320	-	4,320	-	-	4,557	-	4,557	-	-
Public Employment Relations Board															
State Operations	4,035	-	4,035	-	-	4,072	-	4,072	-	-	4,292	-	4,292	-	-
Dept of Industrial Relations															
State Operations	133,731	36,256	169,987	-	22,047	136,455	42,794	179,249	-	22,786	138,804	40,601	179,405	-	22,786
Local Assistance	429	-	429	-	-	1,229	-	1,229	-	-	1,257	-	1,257	-	-
Totals, Dept of Industrial Relations	134,160	36,256	170,416	-	22,047	137,684	42,794	180,478	-	22,786	140,061	40,601	180,662	-	22,786

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds
Department of Personnel Administration												
State Operations	5,121	-	5,121	-	12	5,360	-	5,360	-	-	6,035	-
CA Citizens Compensation Commission												
State Operations	11	-	11	-	-	25	-	25	-	-	25	-
Workers Compensation Benefits												
Subsequent Injuries												
State Operations	2,867	3,239	6,106	-	-	5,507	3,300	8,807	-	-	5,507	3,300
Disaster Service Workers												
Local Assistance	308	-	308	-	-	663	-	663	-	-	663	-
Totals, Workers Compensation Benefits	3,175	3,239	6,414	-	-	6,170	3,300	9,470	-	-	6,170	3,300
Board of Chiropractic Examiners												
State Operations	-	1,662	1,662	-	-	-	1,744	1,744	-	-	-	1,799
Osteopathic Medical Board of California												
State Operations	-	636	636	-	-	-	818	818	-	-	-	849
Board of Pilot Commissioners												
State Operations	-	1,336	1,336	-	-	-	1,524	1,524	-	-	-	1,350
California Horse Racing Board												
State Operations	-	7,508	7,508	-	-	-	7,608	7,608	-	-	-	7,609
California Exposition and Fairs												
State Operations	-	-	-	-	-	-	265	265	-	-	-	-
Department of Food and Agriculture												
State Operations	60,051	64,897	124,948	-	3,602	59,273	71,346	130,619	-	4,631	58,718	65,897
Local Assistance	5,383	44,222	49,605	-	-	5,370	45,014	50,384	-	-	5,370	44,705
Capitol Outlay	900	-	900	-	-	210	-	210	-	-	1,059	-
Totals, Department of Food and Agriculture ..	66,334	109,119	175,453	-	3,602	64,853	116,360	181,213	-	4,631	65,147	110,602
												4,426
Fair Political Practices Commission												
State Operations	4,527	-	4,527	-	-	5,644	-	5,644	-	-	6,138	-
Political Reform Act of 1974												
State Operations	-	-	-	-	-	-	-	-	-	-	2,191	-
Public Utilities Commission												
State Operations	-	74,454	74,454	-	767	-	69,038	69,038	-	988	-	64,873
Board of Control												
State Operations	844	77,318	78,162	-	18,200	857	77,393	78,250	-	25,489	857	86,919
Local Assistance	1,785	-	1,785	-	-	2,700	16	2,716	-	-	534	-
Totals, Board of Control	2,629	77,318	79,947	-	18,200	3,557	77,409	80,966	-	25,489	1,391	86,919
												20,963
Milton Marks "Little Hoover" Commission												
State Operations	593	-	593	-	-	697	-	697	-	-	697	-
Membership in Interstate Organizations												
State Operations	763	-	763	-	-	1,421	-	1,421	-	-	1,631	-
Commission on the Status of Women												
State Operations	416	-	416	-	-	420	-	420	-	-	420	-
California Law Revision Commission												
State Operations	419	-	419	-	-	566	-	566	-	-	566	-
Commission on Uniform State Laws												
State Operations	119	-	119	-	-	117	-	117	-	-	117	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96			Estimated 1996-97			Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
Bureau of State Audits										
State Operations	7,982	202	8,184	-	-	9,106	-	9,106	-	-
Department of Finance										
State Operations	21,613	-	21,613	-	70	21,842	-	22,028	-	-
Constitutional Revision Commission										
State Operations	475	-	475	-	-	-	-	-	-	-
Commission on State Mandates										
State Operations	1,214	-	1,214	-	-	1,319	-	1,007	-	-
Office of Administrative Law										
State Operations	1,875	-	1,875	-	-	1,956	-	2,016	-	-
Military Department										
State Operations	18,723	22	18,745	-	41,607	18,919	150	20,290	-	29,283
Capital Outlay	3,169	374	3,543	-	41,987	7,395	-	14,044	-	52,432
Unclassified	-	-	-	-	379,175	-	-	-	-	415,044
Totals, Military Department	21,892	396	22,288	-	462,769	26,314	150	34,334	-	496,759
Department of Veterans Affairs										
State Operations	1,978	25	2,003	-	-	1,890	25	2,095	-	-
Local Assistance	1,600	149	1,749	-	-	1,600	196	1,796	-	-
Capital Outlay	1,478	-	1,478	-	-	202	-	-	-	-
Totals, Department of Veterans Affairs	5,056	174	5,230	-	-	3,692	221	3,891	-	-
Veteron's Home of California-Yountville										
State Operations	23,456	-	23,456	-	9,594	24,932	-	25,482	-	9,960
Capital Outlay	6,557	799	7,356	-	13,331	1,286	-	-	-	-
Totals, Veteran's Home of California-Yountville ..	30,013	799	30,812	-	22,925	26,218	-	25,482	-	9,960
Veterans' Home of Collifonia-Bartstow										
State Operations	7,045	-	7,045	-	-	9,944	-	10,944	-	2,968
Capital Outlay	-	-	-	-	3,136	-	-	-	-	-
Totals, Veterans' Home of California-Borslow ...	7,045	-	7,045	-	3,136	9,944	-	10,944	-	2,968
Veterans' Home of Collif-Chula Vista										
Capital Outlay	-	-	-	-	-	-	-	-	-	-
Totals, Department of Veterans Affairs	42,114	973	43,087	-	26,061	39,854	221	40,317	-	22,000
Vietnam Veterans Memorial Commission										
State Operations	-	22	22	-	-	-	-	-	-	-
Veterans Memorial Commission										
State Operations	-	161	161	-	-	-	160	160	-	-
General Obligation Bonds-Gen Govt										
State Operations	3,362	-	3,362	-	-	5,652	-	12,630	-	-
Totals, General Administration	382,425	360,593	743,018	-	608,880	407,962	379,374	803,587	-	682,629

SCHEDULE 9—Continued

Appendix 43

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98			
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds
Debt Service												
Payment of interest on PMIA Loans												
State Operations	5,203	-	5,203	-	-	5,000	-	5,000	-	-	5,000	-
Payment of interest on Gen Fund Loans												
State Operations	226,624	-	226,624	-	-	168,000	-	168,000	-	-	201,000	-
Interest Payments to the Federal Govt												
State Operations	10,310	312	10,622	-	-	12,000	501	12,501	-	-	12,501	-
Totals, Debt Service	242,137	312	242,449	-	-	185,000	501	185,501	-	-	218,501	-
Statewide Expenditures												
Health & Dental Benefits for Annuitants												
State Operations	267,057	-	267,057	-	-	267,991	-	267,991	-	-	278,710	-
Early Ctm Bd Control, Stimms by Justice												
State Operations	6,622	3,303	9,925	385	19	7,672	5,000	12,672	13	29	1,201	-
Federal Levy of State Funds												
Unclassified	179	-	179	-	-	275	-	275	-	-	-	-
Reserve for Contingencies or Emergency												
State Operations	-	-	-	-	-	2,000	1,500	3,500	-	-	2,000	1,500
Unallocated Capital Outlay												
Capital Outlay	210	-	210	-	-	200	-	200	-	-	50	-
Reserve for Encumbrances												
Unclassified	-144,546	-	-144,546	-	-	-	-	-	-	-	-	-
Statewide Proposition 98 Reconciliation												
Local Assistance	3,818	-	3,818	-	-	-53,033	-	-53,033	-	-	-55,637	-
PERS General Fund Payment												
State Operations	463,922	-	463,922	-	-	478,267	-	478,267	-	-	587,529	-
Various Departments												
State Operations	1,738	-	1,738	-	-	11,000	-	11,000	-	-	-	-
Local Assistance	-	539	539	-	-	-	2,004	2,004	-	-	2,004	-
Totals, Various Departments	1,738	539	2,277	-	-	11,000	2,004	13,004	-	-	2,004	-
Statewide Gen. Adm Exp (Pro Rata)												
State Operations	-128,369	660	-127,709	-	-	-149,849	2,233	-147,616	-	-	-127,930	2,622
Totals, Statewide Expenditures	470,631	4,502	475,133	385	19	564,523	10,737	575,260	13	29	685,923	6,126
Statewide Savings												
General Fund Credits from Federal Funds												
State Operations	-43,500	-	-43,500	-	-	-40,786	-	-40,786	-	-	-37,367	-
PERS Deferral												
State Operations	-587,500	-	-587,500	-	-	-680,000	-	-680,000	-	-	-680,000	-
PERS Surplus Asset Savings												
State Operations	-65,300	-	-65,300	-	-	-52,364	-	-52,364	-	-	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 1995-96, 1996-97, AND 1997-98
(Dollars in Thousands)

	Actual 1995-96				Estimated 1996-97				Estimated 1997-98						
	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds	General Fund	Special Funds	Budget Total	Selected Bond Funds	Federal Funds
Estimated Unidentifiable Savings	-	-	-	-	-	-5,000	-	-5,000	-	-	-5,000	-	-5,000	-	-
State Operations	-	-	-	-	-	-30,000	-	-30,000	-	-	-30,000	-	-30,000	-	-
Local Assistance	-	-	-	-	-	-35,000	-	-35,000	-	-	-35,000	-	-35,000	-	-
Totals, Estimated Unidentifiable Savings	-	-	-	-	-	-70,000	-	-70,000	-	-	-70,000	-	-70,000	-	-
Totals, Statewide Savings	-696,300	-	-696,300	-	-	-808,150	-	-808,150	-	-	-752,367	-	-752,367	-	-
TOTALS, GENERAL GOVERNMENT	875,033	3,667,391	4,542,424	3,385	655,854	976,605	3,864,444	4,841,049	12,813	730,562	1,162,533	4,006,735	5,169,268	-	746,529
State Operations	475,792	289,756	765,548	385	100,093	358,436	306,191	664,627	13	104,604	587,395	298,963	886,358	-	97,364
Local Assistance	531,294	3,376,462	3,907,756	3,000	118,132	608,601	3,558,253	4,166,854	12,800	157,938	559,985	3,707,772	4,267,757	-	159,689
Capital Outlay	12,314	1,173	13,487	-	58,454	9,293	-	9,293	-	69,161	15,153	-	15,153	-	74,432
Unclassified	-144,367	-	-144,367	-	379,175	275	-	275	-	398,859	-	-	-	-	415,044
GRAND TOTAL	45,393,091	12,540,570	57,933,661	1,936,694	30,339,648	48,443,086	13,592,688	62,035,774	2,204,233	32,011,257	50,300,984	14,343,265	64,644,249	1,993,547	32,616,305
State Operations	11,898,157	5,415,449	17,313,606	37,165	6,149,396	12,251,568	5,716,435	17,968,003	276,439	6,735,591	13,084,334	5,989,321	19,073,655	184,460	6,607,161
Local Assistance	33,605,869	6,784,905	40,390,774	1,754,331	22,663,208	36,099,381	7,060,362	43,159,743	1,135,963	23,873,393	37,076,010	7,523,270	44,599,280	559,619	24,663,883
Capital Outlay	33,432	325,568	359,000	145,198	1,147,869	91,862	787,736	879,598	791,831	1,003,414	140,640	800,824	941,464	1,249,468	930,217
Unclassified	-144,367	14,648	-129,719	-	379,175	275	28,155	28,430	-	398,859	-	29,850	29,850	-	415,044
BUDGET ACT TOTALS	31,606,922	5,592,160	37,199,082	98,636	25,309,827	34,096,248	6,323,587	40,419,835	614,271	27,076,522	36,140,809	6,952,672	43,093,481	605,557	27,685,609
State Operations	10,071,215	4,889,100	14,960,315	29,524	2,445,859	10,891,386	5,128,539	16,019,925	32,174	2,536,399	11,431,463	5,420,894	16,852,357	12,778	2,219,906
Local Assistance	21,654,528	503,980	22,158,508	14,024	22,372,560	23,134,301	798,694	23,932,995	32,215	23,799,442	24,572,606	856,128	25,428,734	29,620	24,598,193
Capital Outlay	25,725	199,080	224,805	55,088	491,408	70,561	396,354	466,915	549,882	740,681	136,740	675,650	812,390	563,159	867,510
Unclassified	-144,546	-	-144,546	-	-	-	-	-	-	-	-	-	-	-	-
STATUTORY APPROPRIATIONS	10,333,756	6,424,599	16,758,355	1,680,336	154,615	11,614,362	6,764,123	18,378,485	1,416,674	6,661	12,328,445	7,072,832	19,401,277	1,366,364	374,310
State Operations	24,852	486,782	511,634	3,672	507	-62,924	560,125	497,201	230,337	4,091	-4,676	566,473	561,797	169,547	350,520
Local Assistance	10,308,844	5,909,733	16,218,577	1,674,387	150,972	11,677,286	6,175,605	17,852,891	1,040,664	2,150	12,333,121	6,476,509	18,809,630	522,999	1,790
Capital Outlay	60	1,236	1,296	2,277	3,136	-	238	238	145,673	420	-	-	-	673,818	22,000
Unclassified	-	26,848	26,848	-	-	-	28,155	28,155	-	-	-	29,850	29,850	-	-
CONSTITUTIONAL APPROPRIATIONS	1,911,231	-	1,911,231	-	-	1,952,536	-	1,952,536	-	-	1,978,806	-	1,978,806	-	-
State Operations	1,911,231	-	1,911,231	-	-	1,952,536	-	1,952,536	-	-	1,978,806	-	1,978,806	-	-
OTHER APPROPRIATIONS	1,541,182	523,811	2,064,993	157,722	4,875,206	779,940	504,978	1,284,918	173,288	4,928,074	-147,076	317,761	170,685	21,626	4,556,386
State Operations	-109,141	39,567	-69,574	3,969	3,703,030	-529,430	27,771	-501,659	13,928	4,195,101	-321,259	1,954	-319,305	2,135	4,036,735
Local Assistance	1,642,497	371,192	2,013,689	65,920	1,373,697	1,287,794	86,063	1,373,857	63,084	71,801	170,283	190,633	360,916	7,000	63,900
Capital Outlay	7,647	125,252	132,899	87,833	653,325	21,301	391,144	412,445	96,276	262,313	3,900	125,174	129,074	12,491	40,707
Unclassified	179	-12,200	-12,021	-	379,175	275	-	275	-	398,859	-	-	-	-	415,044

SCHEDULE 10
SUMMARY OF FUND CONDITION BY FUNDS AS OF JUNE 30, 1995, 1996, 1997 AND 1998
(Dollars in Thousands)

Fund	Reserves June 30, 1995	Actual Income 1995-96	Actual Expenditures 1995-96	Actual Expenditures 1995-96	Reserves June 30, 1996	Estimated Income 1996-97	Estimated Expenditures 1996-97	Reserves June 30, 1997	Estimated Income 1997-98	Estimated Expenditures 1997-98	Reserves June 30, 1998
GENERAL FUND	807,444	46,296,094	46,418,092	46,418,092	685,446	48,405,466	48,443,087	647,825	50,657,473	50,300,984	1,004,314
SPECIAL FUNDS											
SPECIAL ACCOUNTS:											
Access for Handicapped Account	1,006	1,492	1,410	1,410	1,088	1,800	1,813	1,075	1,800	1,833	1,042
Accountancy Fund	9,745	8,222	8,340	8,340	9,627	7,776	9,351	8,052	7,924	9,585	6,391
Acupuncture Fund	1,543	1,253	1,177	1,177	1,118	1,257	1,236	1,501	1,257	1,166	1,592
Aeronautics Account STF	2,369	7,022	5,878	5,878	3,513	6,178	8,972	719	6,035	6,719	35
Agricultural Export Promotion Acct, CA	12	294	236	236	70	292	350	12	303	300	15
Agricultural Pest Control Research Acct	43	3	-	-	46	3	-	49	3	-	52
Agriculture Acct, AG Fund	35,602	77,122	80,632	80,632	32,092	79,652	88,052	23,692	81,013	81,839	22,866
Air Pollution Control Fund	2,057	9,425	9,299	9,299	2,183	9,341	9,407	2,117	6,429	7,336	1,210
Air Toxics Inventory and Assessment Acct	422	2,662	3,059	3,059	25	2,655	2,647	33	2,265	2,257	41
Alcohol Beverage Control Fund	2,282	32,549	28,805	28,805	6,026	28,938	28,759	6,205	29,449	30,053	5,601
Alcoholic Beverage Control Appeals Fund	639	755	491	491	903	578	535	946	578	550	974
Architectural Examiners Fd.St 8d of	2,124	3,825	3,820	3,820	2,129	1,929	2,829	1,229	2,789	2,853	1,165
Armory Discretionary Improvement Account	51	38	22	22	67	150	150	67	150	150	67
Asbestos Consultant Certification Acct	44	222	265	265	1	321	316	6	321	326	1
Asbestos Training Approval Account	100	-	14	14	86	194	237	43	194	237	-
Assembly and Senate, Operating Funds Of	21	-	2	2	21	-	-	21	-	-	21
Assistance for Fire Equipment Acct State	240	20	-	-	258	100	100	258	100	100	258
Attorney General Antitrust Account	3,079	-	1,036	1,036	2,043	16	1,041	1,018	30	1,048	-
AIDS Vaccine Research Develop Grant Fd	2	-	2	2	-	-	-	-	-	-	-
Bank and Corporation Tax Fund	-	-	36	36	-36	-	4	-40	-	-	-40
Banking Fund, State	5,767	14,801	15,637	15,637	4,931	14,334	15,866	3,399	17,711	23,645	10,433
Barbering/Cosmetology Fd, St Bd of	4,762	8,298	7,210	7,210	5,850	8,571	8,038	6,383	8,975	7,985	7,373
Bay Protection and Toxic Cleanup Fund	730	2,567	1,949	1,949	1,348	2,506	2,457	1,397	2,443	2,458	1,382
Behavioral Science Examiners Fund	473	4,900	4,474	4,474	899	6,252	4,656	2,495	6,440	4,144	4,791
Beverage Container Recycling Fund, CA	101,543	300,817	317,131	317,131	85,229	319,855	339,773	65,311	319,985	340,093	45,203
Bicycle Lane Account, STF	661	468	459	459	670	440	470	640	440	470	610
Bimetal Processing Fee Acct, Rev Cont Re	-	16	3	3	13	19	29	3	19	19	3
Boxer's Neurological Examination Account	189	148	215	215	122	176	230	68	198	231	35
Boxers Pension Account	-	34	34	34	-	35	35	-	75	75	-
Breast Cancer Control Account	6,202	18,786	9,450	9,450	15,538	17,786	16,957	16,367	17,711	23,645	10,433
Breast Cancer Fund	1,679	-1,619	60	60	-	67	67	-	106	106	-
Breast Cancer Research Account	6,202	18,786	16,347	16,347	8,641	17,785	16,455	9,971	17,711	16,358	11,324
Business Fees Fund, Secty of State	-	20,201	20,201	20,201	-	21,325	21,325	-	23,442	23,442	-
Business Reinvestment Fund	-	2,000	-	-	2,000	2,000	749	3,251	2,000	796	4,455
Col- OSHA Targeted Inspection & Consult	1,421	6,553	4,815	4,815	3,159	5,796	7,971	984	5,796	6,164	616
Capital Outlay Fd for Public Higher Educ	3,232	-3,232	-	-	-	-	-	-	-	-	-
Caseload Subocct, Sales Tax Growth Acct	-	20,221	20,221	20,221	-	-	-	-	-	-	-
Cemetery Fund	18	3,026	2,341	2,341	703	4,760	4,212	1,251	818	981	1,088
Certification Acct, Consumer Affairs Fd	244	416	461	461	199	301	470	30	576	571	35
Certification Fund	214	348	352	352	210	423	402	231	502	605	128
Child Health and Safety Fund	70	412	-	-	482	783	-	1,265	1,045	984	1,326
Childhood Lead Poisoning Prevention Fund	6,676	12,425	15,041	15,041	4,060	12,933	700	16,293	12,933	662	28,564
Chiropractic Examiners Fund	1,735	1,875	1,662	1,662	1,948	1,875	1,744	2,079	1,875	1,799	2,155
Cigarette & Tobacco Products Surfox Fund	-	880	880	880	-	949	949	-	1,264	1,264	-
Clinical Laboratory Improvement Fund	-	3,758	3,727	3,727	31	5,425	5,345	111	5,600	5,663	48
Co Medical Svc Subocct Sales Tax Growth	-	4,638	4,638	4,638	-	2,108	2,108	-	4,518	4,518	-
Cochello Valley Mountains Conservancy	-	-	-	-	-	40	-	40	30	70	-
Collins-Dugan Collf Conserv Corps Reimb	-	-	-	-	-	23,318	23,318	-	25,588	25,588	-
Commerce Marketing Fund	37	35	6	6	66	103	106	63	103	106	60
Commercial Motor Carrier Safety Enfrnt Fd	1,262	518	243	243	1,537	51	1,522	66	-	-	66
Commodity Merchant Account	38	-	-	-	38	-	-	38	-	-	38
Community Health Equity Sub, Sales Tax Grwf	-	10,097	10,097	10,097	-	6,077	6,077	-	13,165	13,165	-
Competitive Technology Fund	10,279	407	5,809	5,809	4,877	98	4,782	193	7	200	-
Construction Management Education Acct	24	31	-	-	55	30	15	70	30	15	85

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUNDS AS OF JUNE 30, 1995, 1996, 1997 AND 1998
(Dollars in Thousands)

Fund	Reserves June 30, 1995	Actual Income 1995-96	Actual Expenditures 1995-96	Reserves June 30, 1996	Estimated Income 1996-97	Estimated Expenditures 1996-97	Reserves June 30, 1997	Estimated Income 1997-98	Estimated Expenditures 1997-98	Reserves June 30, 1998
Continuing Care Provider Fee Fund.....	525	434	557	402	435	619	218	435	630	23
Contractors License Fund.....	16,836	36,808	38,480	15,164	44,895	40,250	19,809	35,622	41,116	14,315
Corporations Fund, State.....	17,218	32,961	30,733	19,446	31,162	33,181	17,427	24,489	29,516	12,400
Corrections Training Fund.....	826	10,029	10,833	22	10,172	10,194	-	10,163	10,163	-
Court Collection Account.....	185	596	539	57	2,380	2,380	195	2,380	2,387	50
Court Interpreters' Fund.....	200	116	2	299	120	224	326	100	248	47
Court Reporters Fund.....	-	601	495	306	574	554	-	546	521	351
Credit Union Fund.....	1,455	7,487	7,904	1,038	6,852	7,556	334	3,014	2,335	679
Debtors' Record of Sale Acct.....	634	1,613	1,231	1,016	1,651	1,588	1,079	6,731	7,031	34
Debt Advisory Commission Fund, Calif.....	1,497	851	360	1,988	465	411	2,042	1,686	1,610	1,155
Debt Limit Allocation Committee Fund, Calif.....	93	-	-212	305	-	-	305	471	415	2,098
Delinquent Tax Collection Fund.....	-1,720	10,228	5,702	2,806	8,981	9,229	2,558	-	-	305
Delta Flood Protection Fund.....	1,042	1,116	999	1,159	1,139	1,124	1,174	1,154	1,026	1,302
Dental Auxiliary Fund, State.....	2,078	5,001	6,005	1,074	5,183	5,713	544	5,090	5,576	58
Dentistry Fund, State.....	322	2,057	2,133	246	1,776	1,833	189	2,016	2,133	72
Developmental Disabilities Prog Dev Fund.....	68	23	-	91	8	50	49	8	30	27
Developmental Disabilities Services Acct.....	502	54	272	284	40	206	118	540	306	352
Diesel Emission Reduction Fund.....	-	4,184	4,184	-	-	-	-	-	-	-
Diesel Fuel Trust Fund.....	37,650	-812	-	36,838	-15,234	-	21,604	-	10,221	11,383
Disaster Relief Fund.....	227	263	184	306	189	240	255	199	262	192
Dispensing Opticians Fund.....	-	-	-	-	321	-	321	696	450	567
Domestic Violence Fund.....	19	972	972	19	989	989	19	1,094	1,094	19
Driver Training Penalty Assessment Fund.....	515	1,660	1,169	1,006	1,800	1,615	1,191	1,800	1,677	1,314
Driving-Under-the-Influence Prog Lic Ts.....	70	49	95	24	19	43	-	-	-	-
Dry Cleaning Fund.....	4	-	-94	98	-	-	98	-	-	98
Earthquake Emergency Invest Acct-NDA Fd.....	-	-	-	-	1,000	1,000	-	1,000	1,000	-
Earthquake Risk Reduction Fund of 1996.....	26	1,559	1,560	25	1,530	1,332	223	1,310	1,507	26
Electronic and Appliance Repair Fund.....	3,287	5,823	5,813	3,297	5,823	5,999	3,121	5,823	5,970	2,974
Elevator Safety Account.....	19	3	15	7	16	15	8	7	8	7
Emerg Medical Svcs Trng Prog Approval Fd.....	271	-	-	271	-	-	271	-	-	271
Emergency Clean Water Grant Fund.....	13	707	696	24	759	708	75	759	766	68
Emergency Medical Services Personnel Fnd.....	14,607	74,107	65,366	23,348	74,541	66,626	31,263	74,541	73,508	32,296
Emergency Telephone Number Acct, State.....	1,029	32,613	32,642	1,000	33,414	33,414	1,000	35,988	35,988	1,000
Employment Development Contingent Fund.....	4,568	12,131	10,006	6,693	7,883	12,576	2,000	10,377	12,274	103
Employment Development Dept Benefit Audit.....	4,519	345	461	4,403	431	4,831	3	390	391	2
Energy Conservation Assistance Ac, State.....	22	38,743	38,400	365	43,176	43,445	96	44,037	42,728	1,405
Energy Resources Programs Account.....	1,722	123	307	1,538	210	1,403	345	210	464	91
Energy Tech Research, Dev, & Dema Acct.....	630	-571	-	59	-48	-	11	109	100	20
Environmental Enhancement Fund.....	798	2,764	2,167	1,395	2,638	2,192	1,841	2,716	2,252	2,305
Environmental Laboratory Improvement Fnd.....	1,607	20,385	21,106	886	22,102	22,988	-	19,389	18,401	988
Environmental License Plate Fund, Calif.....	162	9,540	9,000	702	6,900	6,750	852	8,250	9,000	102
Environmental Water Fund.....	4,424	5,163	5,116	4,471	10,200	10,382	4,289	6,028	10,117	200
Environmnt Enhanc & Miltgat Dema Prgm Fd.....	718	1,469	1,424	763	1,675	2,033	405	2,075	2,112	368
Environmental Protection Trust Fund.....	-	-	2	-2	1,675	-	-2	-	-	-2
Estate Tax Fund.....	-	1,831	-	1,831	1,269	3,100	-	1,260	1,260	-
Expedited Site Remediation Trust Fund.....	69	153	124	98	226	220	104	426	418	112
Export Document Program Fund.....	104	1,357	1,198	263	2,268	2,170	361	2,268	2,170	459
Exposition Park Improvement Fund.....	155	24,956	25,417	-306	24,588	23,646	636	23,846	23,087	1,395
Fair and Exposition Fund.....	373	33	-	406	30	27	148	30	27	412
Farm Labor Contractors Special Account.....	4,535	2,422	5,845	1,112	1,944	2,908	409	1,944	2,060	32
Federal Receipts Acct, HWC.A.....	-	-	-	-	-	-	-	19,502	16,683	2,819
Financial Institutions Fund.....	195	233	-	428	-428	-	-	-	-	5
Financial Responsibility Penalty Account.....	5	-	-	5	-	-	5	-	-	-
Fines & Forfeitures Acct, Parks & Rec Fd.....	2,236	23,575	24,420	1,391	24,120	24,155	1,356	25,150	26,506	312
Fingerprint Fees Account.....	54	1,241	938	357	1,422	1,483	296	1,422	1,406	418
Fire and Arson Training Fund, Calif.....	616	1,620	1,605	631	1,650	1,791	490	1,650	1,722	703
Fire Marshal Licensing & Cert Fund, St.....	843	-399	350	94	768	738	124	768	703	189
Firearms Safety Training Fund Special Ac.....	-	-	-	-	-	-	-	-	-	-

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUNDS AS OF JUNE 30, 1995, 1996, 1997 AND 1998
(Dollars in Thousands)

Fund	Reserves June 30, 1995	Actual Income 1995-96	Actual Expenditures 1995-96	Reserves June 30, 1996	Estimated Income 1996-97	Estimated Expenditures 1996-97	Reserves June 30, 1997	Estimated Income 1997-98	Estimated Expenditures 1997-98	Reserves June 30, 1998
Fish and Game Preservation Fund.....	12,236	82,441	74,888	19,789	76,328	75,615	20,502	77,235	84,008	13,729
Fish and Wildlife Pollution Account.....	-594	10,760	8,584	1,582	1,509	1,424	1,667	1,484	1,484	692
Food Safety Act, Pesticide Reg Fa, Dept.....	2,323	1,475	1,982	1,816	1,565	2,214	1,167	1,565	2,007	725
Food Safety Fund.....	480	2,177	1,965	692	2,098	2,048	742	2,100	2,234	608
Foster and Small Family Insurance Fund.....	393	-	380	13	-	-	13	-	-	13
Funer Directors and Embalmers Fund, St.....	205	751	806	150	774	845	79	774	852	1
Gaming Registration License Fee Acct.....	106	854	757	203	1,150	1,255	98	1,150	1,160	88
Garment Manufacturers Special Account.....	272	161	-	433	130	50	513	130	50	593
General Growth Subacct, Sales Tax Growth.....	-	53,461	53,461	-	32,179	32,179	-	69,711	69,711	-
Genetic Disease Testing Fund.....	5,703	52,991	54,319	4,375	57,510	60,006	1,879	58,976	60,465	390
Geology and Geophysics Fund.....	782	661	711	732	5,133	686	686	711	799	598
Geothermal Resources Development Account.....	4,528	5,478	5,478	-	5,133	5,133	-	5,133	5,133	-
Glass Processing Fee Account.....	-	24,054	24,186	4,396	31,490	30,021	5,865	32,985	30,063	8,787
Graphic Design License Plate Account.....	-	583	333	250	461	441	270	461	645	86
Guide Dogs for the Blind Fund.....	53	16	46	23	81	62	42	85	52	75
Habitat Conservation Fund.....	22,100	27,760	30,240	19,620	25,693	39,816	5,497	23,738	28,174	1,061
Hazardous & Idle-Deserted Well Abate Fnd.....	45	58	70	33	63	60	36	58	55	39
Hazardous Liquid Pipeline Safety Calif.....	316	1,370	859	827	1,631	1,705	753	1,631	1,905	479
Hazardous Materials Enforce Train Acct.....	18	4	-	22	4	-	26	4	-	30
Hazardous Spill Prevention Acct, RAPRF.....	1,268	2,902	2,853	1,317	131	1,049	399	164	563	-
Hazardous Subst Clearing Account.....	-279	16,034	12,265	3,490	8,769	10,997	1,262	5,241	6,151	352
Hazardous Substance Subaccount.....	-931	1,487	17	539	1,006	966	579	1,006	1,187	398
Hazardous Waste Control Account.....	12,233	58,192	61,003	9,422	52,460	57,881	4,001	53,283	54,664	2,620
Health Data & Planning Fund, CA.....	3,072	11,319	10,304	4,087	11,206	10,470	4,823	11,200	11,130	4,893
Health Ed Acct, Cig & Tab Pr Surtax.....	67,399	95,875	46,929	116,345	94,310	130,107	80,548	94,027	108,893	65,892
Health Statistics Special Fund.....	-	12,424	9,452	2,972	9,858	10,227	2,603	10,046	10,054	2,595
Heath Subaccount, Sales Tax Account.....	-	228,405	228,405	-	278,874	278,874	-	307,521	307,521	-
Hearing Aid Dispensers Fund.....	126	509	406	229	507	637	99	525	578	46
Higher Education Earthquake Account 1987.....	3,217	-	2,960	257	-	257	-	-	-	-
Higher Education Fees and Income-CSU.....	-	608,438	608,438	-	603,668	603,668	-	609,368	609,368	-
Highway Account, State, SIF.....	431,198	2,288,486	1,846,391	873,293	2,449,848	2,332,579	990,562	2,505,147	2,612,463	883,246
Highway Users Tax Account, TIF.....	-	947,973	947,973	-	980,760	980,760	-	1,004,850	1,004,850	-
Home Furnish & Thermal Insulat Fa, Burea.....	1,201	2,949	3,303	847	3,494	3,144	1,197	3,570	2,873	1,894
Hospital Building Fund.....	4,839	14,915	17,697	2,057	16,900	18,475	482	17,945	18,257	170
Hospital Svc Acct, Cig & Tab Pr Surtax.....	13,192	139,287	131,468	21,011	117,965	130,042	8,934	121,208	127,539	2,603
Illegal Drug Lab Cleanup Account.....	-	-	-	-	2,718	2,718	-	-	-	-
In-Home Supportive Service Reg Model STA.....	180	-	-	180	-	-	180	-180	-	-
Indigent Health Equity Sub, Sales Tax GmF.....	-	4,123	4,123	-	2,482	2,482	-	5,377	5,377	-
Industrial Development Fund.....	858	545	322	1,081	441	433	1,089	431	431	1,099
Industrial Medicine Fund.....	2,554	1,744	1,433	2,865	1,112	1,752	2,225	1,171	1,707	1,689
Industrial Rel Construction Enforce Fa.....	28	46	4	70	33	50	53	33	50	36
Infant Batulism Treatment & Prevention.....	-	-	-	-	200	192	8	700	678	30
Inland Wetlands Cons Fa, Wildlife Rest.....	1,197	831	1,236	792	558	558	1,350	136	-	1,486
Insurance Fund.....	11,839	115,864	125,403	2,300	128,998	125,011	6,287	109,359	112,424	3,222
Integrated Waste Management Acct.....	8,214	34,674	39,301	3,587	34,934	38,521	-	36,761	36,584	177
Justice DNA Testing Fund, Department of.....	-	10	-	10	-	-	10	-	-	10
Justice Sexual Habitual Offender, Dep't of.....	98	1,607	1,366	339	1,607	1,586	360	1,621	1,549	432
Lake Tahoe Conservancy Account.....	-	-	-	-	-	79	-	-	70	-149
Landscape Architects Fund, Cal St Bd of.....	412	508	465	455	538	508	485	554	515	524
Leaking Undergrd Star Tank Cost Recovery.....	11,913	7,269	5,475	13,707	6,000	8,158	11,549	6,000	8,100	9,449
Licensed Midwifery Fund.....	11	1	7	5	18	20	3	20	18	5
Lifetime License Trust Acct, Fish & Game.....	232	34	-	266	39	-	305	39	-	344
Lac Pub Prosecutors & Pub Defenders Trng.....	199	863	788	274	863	795	342	863	1,094	111
Local Agency Deposit Fund.....	114	111	-177	48	100	127	21	120	127	14
Local Airport Loan Account.....	6,719	1,380	-106	8,205	1,100	2,850	6,455	1,100	2,850	4,705
Local Govt Geothermal Resource Subacct.....	5,786	2,406	4743	3,449	2,306	4,435	1,320	2,304	3,458	166
Local Jurisdiction Energy Assistance.....	4,929	138	534	4,533	259	2,182	2,610	282	182	2,710
Local Revenue Fund.....	-	395	395	-	397	397	-	397	397	-

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUNDS AS OF JUNE 30, 1995, 1996, 1997 AND 1998
(Dollars in Thousands)

Fund	Reserves June 30, 1995	Actual Income 1995-96	Actual Expenditures 1995-96	Reserves June 30, 1996	Estimated Income 1996-97	Estimated Expenditures 1996-97	Reserves June 30, 1997	Estimated Income 1997-98	Estimated Expenditures 1997-98	Reserves June 30, 1998
Long Term Management Strategy Completion	-	-	-	-	60	60	-	150	150	-
Long Term Management Strategy Study Fund	95	-	95	-	-	-	-	-	-	-
Loss Control Certification Fund	-	1,847	-	1,847	807	739	1,915	807	739	1,983
Low-Level Radioactive Waste Disposal Fnd	1,292	328	694	926	290	704	512	760	1,181	91
Major Risk Medical Insurance Fund	15,858	30,000	41,217	4,641	32,500	34,041	3,100	41,350	41,350	3,100
Mandates Claims Fund, State	461	-	-	461	-	-	461	-	-	461
Medical Examiners' Board of, Contingent	5,596	31,237	31,828	5,005	31,255	32,771	3,489	32,160	31,725	3,924
Medical Waste Management Fund	712	968	911	769	960	925	804	969	1,058	715
Mental Health Equity Sub, Solestx Growth	-	3,263	3,263	-	1,964	1,964	-	4,254	1,058	-
Mental Health Subaccount, Sales Tax Acct.	-	729,780	729,780	-	767,923	767,923	-	788,549	788,549	-
Mine Reclamation Account	648	1,213	1,144	717	990	1,166	541	1,035	1,137	439
Missing Children Reward Fund	24	-	-	24	-	2	22	-	2	20
Mobilehome Park Revolving Fund	614	3,655	4,267	2	3,527	3,527	2	3,617	3,617	2
Masquiborne Disease Surveillance Acct	35	65	28	72	38	31	79	62	26	115
Motor Carriers Permit Fund	-	-	-	-	14,605	6,853	7,752	7,801	9,557	5,996
Motor Carriers Safety Improvement Fund	-	-	-	-	1,445	-	1,445	1,510	1,510	-
Motor Vehicle Account, STF	64,592	1,068,887	1,114,008	19,471	1,111,184	1,130,630	25	1,173,746	1,150,456	23,315
Motor Vehicle Fuel Account	196,552	62,288	42,155	216,685	64,296	45,318	235,663	66,234	48,397	253,500
Motor Vehicle Insurance Account, STF	281	17,364	18,364	1,437	20,314	21,401	350	22,901	21,944	1,307
Motor Vehicle License Fee Account, TIF	-	2,519,372	2,519,372	-	2,664,158	2,664,158	-	2,807,269	2,807,269	-
Motor Vehicle Parking Facility Money Acct	549	3,781	3,817	513	5,758	5,758	513	5,797	5,797	513
Narc Assist & Relinquish Crim Offend Fd	-6	6	726	186	1,038	923	-	1,096	966	-
Narcotic Treatment Program Licensing Tr	41	871	-	16	73	-	301	73	-	431
Native Species Conserv & Enhancement Acct	11	5	-	723	1,560	1,517	89	1,532	1,510	162
New Motor Vehicle Board Account	391	1,498	1,166	829	3,048	3,051	766	3,048	3,106	788
Nuclear Planning Assessment Special Ac	1,398	2,065	2,634	137	365	432	826	381	450	768
Nursing Home Admin St Lic Exam Bd Fund	222	365	450	-	8,396	472	7,924	2,524	472	1
Occupancy Compliance Monitoring Account	-	-	-	-	2,400	2,204	3,550	2,400	2,188	9,976
Occupational Lead Poisoning Prev Acct (GF	2,690	2,400	1,736	3,354	2,400	2,204	483	850	850	3,762
Off Highway License Fee Fund	483	842	842	483	850	850	3,449	34,669	35,866	4,252
Off-Highway Vehicle Trust Fund	15,194	29,551	27,709	17,036	33,340	44,927	5,449	34,669	35,866	4,252
Oil Refinery & Chem Plant Safety Fd, Cal	34	304	302	36	-	3	33	-	-	33
Oil Spill Prevention & Administration Fd	5,385	19,897	20,779	4,503	20,850	21,904	3,449	20,850	21,082	3,217
Oil Spill Response Trust Fund	48,997	6,504	7,169	48,332	6,095	3,562	50,865	6,220	3,793	53,292
Olympic Training Account, California	125	-103	-	22	-7	-	15	-10	-	5
Optametry Fund, State	527	993	869	651	1,467	1,075	1,043	1,052	999	1,096
Osteopathic Medical Bd of Calif Cantn Fd	439	931	636	734	1,068	818	984	1,085	849	1,220
Outer Cont Shelf Land Act Sec 8g Rev Fnd	22,457	-22,457	-	-	-	-	-	-	-	-
Outpatient Setting Fd of Medical Board	136	48	48	99	1	88	12	53	27	38
OES Disaster Admin Suppt Acc(Abort/1/97)	475	-3,550	-3,550	4,066	-	4,066	-	-	-	-
Parks and Rec Acct, St, Parks & Rec Fd	-3,612	96,564	90,801	2,151	80,750	81,712	1,189	80,655	81,387	457
Peace Officers Training Fund	9,218	31,133	30,530	9,821	37,919	39,997	7,743	33,692	41,435	-
Perinatal Insurance Fund	4,521	35,815	39,805	531	42,000	39,431	3,100	47,000	47,000	3,100
Personal Income Tax Fund	-	-	2	-2	-	39	-41	-	-	-41
Pesticide Regulation Fund, Dept of	10,224	34,955	30,763	14,416	36,566	33,585	17,397	23,671	30,600	10,468
Petra Undergrnd Storage Tank Financ Acct	9,541	7,400	5,419	11,522	5,182	16,071	633	13,748	14,371	10
Pharmacy Board Contingent Fund	1,694	5,724	4,632	2,786	6,915	6,094	3,607	7,146	5,588	5,165
Physical Therapy Fund	307	1,149	1,149	471	1,446	1,556	361	1,670	1,910	121
Physician Assistant Fund	1,018	755	700	1,073	734	749	1,058	763	759	1,062
Physician Svc Acct, Cig & Tob Pr Surtax	5,070	21,567	24,878	1,759	22,239	21,779	2,219	18,071	19,884	406
Plat Commissioners Fund	1,231	385	1,336	280	1,644	1,524	400	1,649	1,350	699
Podiatric Medicine Fund, Board of	92	787	824	55	951	984	22	969	967	24
Pressure Vessel Account	-523	3,622	3,073	26	3,400	3,260	166	3,400	3,230	336
Private Investigator Fund	999	297	685	611	662	655	618	573	553	638
Private Postsecond Education Admin Fund	3,094	4,984	4,240	3,838	4,071	5,263	3,359	4,774	4,707	3,426
Private Security Services Fund	-	5,478	3,779	1,699	5,071	5,283	1,487	4,148	5,633	2
Professional Engineer & Land Surveyor Fd	2,948	5,871	6,001	2,818	7,470	6,442	3,846	8,439	6,516	5,769
Professional Forester Registration Fund	201	168	161	208	150	171	187	212	170	229

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUNDS AS OF JUNE 30, 1995, 1996, 1997 AND 1998
(Dollars in Thousands)

Fund	Reserves June 30, 1995	Actual Income 1995-96	Actual Expenditures 1995-96	Reserves June 30, 1996	Estimated Income 1996-97	Estimated Expenditures 1996-97	Reserves June 30, 1997	Estimated Income 1997-98	Estimated Expenditures 1997-98	Reserves June 30, 1998
Property Acquisition Low Money Account....	1,212	3,142	2,878	1,476	5,402	3,314	3,564	2,756	4,580	1,740
Psychiatric Technicians Account.....	184	966	1,143	7	992	900	99	998	892	205
Psychology Fund.....	386	2,988	2,525	849	3,040	2,778	1,111	3,161	2,761	1,511
Pub Sch Ping Design & Constr Rev Reviv Fd.,	4,098	9,266	8,710	4,654	9,877	10,356	4,175	9,877	10,318	3,734
Publ Utilities Comm Utilities Reimb Acct.....	6,248	50,560	51,313	5,495	52,172	48,787	8,880	52,172	51,119	9,933
Public Foc&loc Ag Dis Res Ac(Abol/7/1/97)...	27,872	350	25,501	2,721	4,195	6,916	-	-	-	-
Public Int Renewable Res Tech Fd, ERPA.....	-	-	-	-	-	-	-	45,733	45,733	-
Public Int Res. Dev & Demonstrat'n Program...	2,834	19,866	18,664	4,036	18,861	21,027	-	21,131	20,431	568
Public Res Acct, Clg & Tob Pr Surfox.....	4,145	8,503	8,916	3,732	8,067	8,478	3,321	5,989	7,196	2,114
Public Util Comm Transport Reimb Acct.....	-	2,094	2,094	-	10,350	10,350	-	12,000	12,000	-
PET Processing Fee Acct, Bev Cont Rec Fd.,	9,888	12,719	8,921	13,686	13,335	9,793	17,228	13,585	13,002	17,811
Radiation Control Fund.....	45	11	4	52	4	6	50	-	-	50
Rodon Contractor Certification Fund.....	77	-	-	77	77	-	154	-154	-	-
Roll Accident Prevention & Response Fund.,	7,624	2,060	3,224	6,460	6,506	3,783	9,183	2,959	3,821	8,321
Reol Estate Appraisers Regulation Fund.....	7,198	21,004	24,484	3,718	26,402	24,612	5,508	29,785	26,492	8,801
Reol Estate Commissioner's Fund.....	415	6,036	702	5,749	6,483	12,232	-	6,914	6,914	-
Recycling Market Development Rev Loon...	36	204	155	85	229	173	141	269	164	246
Reg Environmental Health Specialist Fd.....	355	657	639	373	670	621	422	670	636	456
Registered Nurse Education Fund.....	8,754	12,375	12,503	8,626	12,313	12,365	8,574	12,379	11,492	9,461
Registered Nursing Fund, Board of.....	30	111	82	59	125	97	87	130	104	113
Registered Veterinary Techn Exam Comm Fd.,	42,609	24,553	5,744	61,418	24,153	64,324	21,247	23,382	26,436	18,193
Research Acct, Clg & Tob Pr Surfox.....	6,609	342	342	6,267	3,957	3,957	2,310	2,078	200	2,110
Residential Earthquake Recovery Fund, CA.,	183	1,488	1,456	215	1,864	2,078	1	2,078	2,056	23
Respiratory Care Fund.....	-417	98,381	77,318	20,646	83,305	77,407	26,544	86,081	86,917	25,708
Retiil Sales Tax Fund.....	2,202	217	24	-24	-	3	-27	-	-	-27
Rural Economic Development Fund.....	2,951	6,629	1,191	1,228	151	1,327	52	132	164	20
Safe Drinking Water Account.....	681	42	6,942	2,638	6,768	7,377	2,029	6,844	7,935	938
Sale of Tobacco to Minors Control Acct.....	447	10,526	-213	936	121	65	992	121	53	1,060
Sofelife Wagering Account.....	858	51	10,343	630	13,170	13,301	499	12,659	12,985	173
Savings Association Spec Fund.....	-	57	332	577	35	242	370	-370	-	-
School Building Safety Fund.....	-	13,784	13,784	-	16	16	-	7	7	-
School Fund, State.....	12,900	1,051	10	13,941	12,381	12,381	16,251	12,381	12,381	18,651
School Land Bank Fund.....	-	-	-205	205	2,310	-	205	2,400	190	15
School Safety Account.....	-2	978	-	-2	79	77	-	77	77	585
Seismic Gas Valve Cert Fee Acct.....	120	28,119	755	343	1,029	802	570	1,091	1,076	-
Seismic Hazards Identification Fund.....	1,105	1,776	29,224	-	-	-	-	-	-	-
Seismic Safety Retrofit Account STF.....	308	-	2,043	1,497	1,776	2,878	395	2,525	2,866	54
Self-Insurance Plans Fund.....	258	42	-	308	-	-	308	-	-	308
Senote Operating Fund.....	2,399	532,998	270	2,070	198	226	2	121	57	66
Sexual Predator Public Information Acct.....	-	20	349	-	-	3	2,067	-	3	2,064
Site Operation and Maintenance Account....	14	5,828	532,998	-	558,346	558,346	-	561,432	561,432	-
Social Services Subaccount, Sales Tx Acc.....	1,504	1,227	948	103	1,050	1,000	153	1,044	1,157	40
Soil Conservation Fund.....	-	53	5,270	2,062	5,550	5,139	2,473	2,750	5,032	191
Solid Waste Disposal Site Cleanup Tr Fd.....	-	-	1,174	-	-	-	-	-	-	-
Special Account for Capital Outlay.....	618	12,366	12,366	687	4,063	4,063	-	7,622	7,622	184
Special Equity Subaccount, STGA.....	1,357	362	293	1,155	77	349	415	65	296	1,155
State Audit Fund.....	-	5,791	202	-	3,486	3,486	1,155	7,553	7,553	1,032
State Hospital Mental Health Equity STGA....	-	-	5,791	-	1,032	-	1,032	1,032	1,032	75
State HICAP Fund.....	247	488	572	163	500	544	119	500	544	-
State Law Library Special Account Conf....	626	44	-190	860	-92	768	-	-	-	-
Street and Highway Account (Abol 7/1/97)...	541	2,411	833	2,059	2,520	2,059	1,294	2,880	2,740	1,434
Strong Motion Instrumentation Spec Fund....	134	247	191	190	209	205	194	209	268	135
Structural Pest Cntrl Educ&Enforcement Fd....	2,613	3,168	2,800	2,981	2,967	3,055	2,893	2,708	3,157	2,444
Structural Pest Control Fund.....	277	102	-	379	98	92	385	99	92	392
Subsequent Injuries Moneys Account.....	329	3,108	3,239	198	3,300	3,300	198	3,300	3,300	198

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUNDS AS OF JUNE 30, 1995, 1996, 1997 AND 1998
(Dollars in Thousands)

Fund	Reserves June 30, 1995	Actual Income 1995-96	Actual Expenditures 1995-96	Reserves June 30, 1996	Estimated Income 1996-97	Estimated Expenditures 1996-97	Reserves June 30, 1997	Estimated Income 1997-98	Estimated Expenditures 1997-98	Reserves June 30, 1998
Surface Impoundment Assessment Account:	903	9	-	912	9	-	921	9	-	930
Surface Mining and Reclamation Account:	597	1,440	1,442	595	2,025	1,465	1,155	2,025	2,401	779
Tox Credit Allocation Fee Account:	13,665	4,860	1,496	17,029	-3,641	1,231	12,157	2,647	1,242	13,562
Tox Preparers Fund:	1,738	-599	340	799	54	578	275	-275	-	-
Tox Relief and Refund Account:	-	-	91	-91	-	150	-241	-	-	-241
Teacher Credentials Fund:	2,677	11,191	12,897	971	13,061	12,524	1,508	13,061	12,576	1,993
Technical Assistance Fund:	-	-	-	-	1,095	810	285	1,289	810	764
Test Development and Admin Acct, Ic Fd:	789	4,311	4,909	191	6,365	5,939	617	6,790	6,669	738
Tire Recycling Management Fund, Collf:	6,219	4,329	3,744	6,804	4,822	5,471	6,155	5,446	8,777	2,824
Tissue Bank License Fund:	60	143	115	88	130	92	126	150	99	177
Transcript Reimbursement Fund:	58	307	291	74	302	325	51	302	325	28
Transport Planning & Develop Acct, STF:	37,607	186,246	194,239	29,614	191,100	186,350	34,364	215,644	209,852	40,156
Transportation Rofe Fund:	14,609	14,115	12,595	16,129	-2,395	7,052	6,682	1,750	1,808	6,624
Traumatic Brain Injury Fund:	104	500	500	104	500	500	104	500	500	104
Trouble Seller Fund:	154	654	557	251	716	774	193	716	749	160
Trustline Voluntary Registration Fund:	21	95	31	85	101	186	-	477	477	-
Unolocated Acct, Cig & Tob Pr Surtx:	10,951	89,550	89,975	10,526	97,825	82,559	25,792	82,695	106,317	2,170
Underground Storage Tank Cleanup Fund:	108,957	120,907	141,873	87,991	154,750	155,333	87,408	168,000	245,262	10,146
Underground Storage Tank Fund:	2,476	407	427	2,456	66	632	1,890	10	434	1,466
Underground Storage Tank Tester Account:	56	34	40	50	54	51	53	52	51	54
Unified Program Account:	-	-	-	-	1,392	1,391	1	2,663	2,664	-
Used Oil Recycling Fund, Coliformo:	30,317	23,888	25,022	29,183	24,321	24,497	29,007	24,321	24,479	28,849
Vehicle Inspection and Repair Fund:	6,552	95,543	100,073	2,022	98,426	97,733	2,715	102,297	97,482	7,530
Vehicle License Collection Acct, LRF:	-	14,000	14,000	-	14,000	14,000	-	14,000	14,000	-
Vehicle License Fee Account:	-	760,066	760,066	-	809,674	809,674	-	852,346	852,346	-
Vehicle License Fee Growth Account:	-	49,607	49,607	-	42,672	42,672	-	45,690	45,690	-
Veterans Memorial Account:	315	222	163	374	223	164	433	223	164	492
Veterans Service Office Fund:	-	178	174	4	217	221	-	221	221	-
Veterinary Medical Board Contingent Fund:	310	1,191	1,108	393	1,363	1,208	548	1,452	1,180	820
Victim Witness Assistance Fund:	29	15,767	15,661	135	17,353	16,751	737	16,259	16,996	-
Vietnom Veterans Memorial Account:	60	3	22	41	3	-	44	3	-	47
Vitol Record Improvement Acct(Abol 1/97):	2,947	-2,947	-	-	-	-	-	-	-	-
Vocational Nurse Examiners Fund:	485	3,390	3,514	361	3,463	3,215	609	3,635	2,989	1,255
Waste Discharge Permit Fund:	10,184	13,205	16,708	6,681	12,227	14,067	4,841	10,636	12,129	3,348
Water Device Certification Special Acct:	74	-44	29	1	100	53	48	110	61	97
Water Fund, Coliformo:	1,774	8,592	7,991	2,375	12,535	13,636	1,274	10,729	11,931	72
Waterfowl Habitat Preservation Acct, Col:	2,682	-45	-	2,637	-45	-	2,592	-45	-	2,547
Wildlife Restoration Fund:	1,688	1,706	1,690	1,704	2,049	2,920	833	1,250	1,909	174
Wine Safety Fund:	89	175	165	99	158	178	79	159	192	46
Winter Recreation Fund:	73	118	150	41	150	150	41	150	150	41
Workers' Comp Administration Revolv Fund:	4,595	18,210	17,754	5,051	17,922	17,965	5,008	17,922	18,119	4,811
Workers' Compensation Managed Care Fund:	1,105	10	426	689	68	430	327	68	395	-
Workplace Health & Safety Revolving Fund:	876	1,321	615	1,582	946	1,120	1,408	946	721	1,633
Yosemite Foundation Acct, ELPF:	-	678	678	-	456	456	-	456	456	-
OTHER UNALLOCATED SPECIAL FUNDS										
Interest Payments to the Federal Govt:	-	-	-	-	-	1	-1	-	1	-2
Reserve for Contingencies or Emergency:	-	-	-	-	-	1,500	-1,500	-	1,500	-3,000
State Controller:	-	-	206	-206	-	207	-413	-	131	-544
TOTALS, SPECIAL FUNDS	1,847,466	12,969,977	12,540,565	2,276,878	13,540,859	13,592,694	2,225,043	14,074,809	14,343,265	1,956,587
GRAND TOTALS	2,654,910	59,266,071	58,958,657	2,962,324	61,946,325	62,035,781	2,872,868	64,732,282	64,644,249	2,960,901

STATEMENT OF GENERAL OBLIGATION BOND AND COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA (Dollars in Thousands)

(This statement does not include bonds issued under authority of State instrumentalities that are not general obligations of the State of California)

Fund	General Obligation Bonds						Proposed Sales		Commercial Paper	
	Sales through December 31, 1996			Redeemed	after 1996-97	1997-98	through June 30, 1997			
	Maturity	Authorized	Unissued				Outstanding	Finance Cmte Authorization	Total Outstanding	
BUSINESS, TRANSP AND HOUSING										
0788	1990-2010	\$150,000	-	\$95,525	\$54,475	-	-	-	-	-
0703	1991-2026	1,990,000	\$930,000	926,660	133,340	\$69,000	\$140,000	\$130,000	\$42,120	-
0513	1988-1996	15,000	-	-	15,000	-	-	-	-	-
0714	1990-2001	300,000	-	120,925	179,075	-	-	-	-	-
0714	1991-2022	150,000	-	86,295	63,705	-	-	-	-	-
0756	1991-2015	1,000,000	107,900	740,155	151,945	58,000	49,900	107,900	-	-
0653	1997-2027	2,000,000	2,000,000	-	-	182,000	425,000	340,000	-	-
	Total, Business, Transp & Housing	\$5,605,000	\$3,037,900	\$1,969,560	\$597,540	\$309,000	\$614,900	\$577,900	\$42,120	-
NATURAL RESOURCES										
0722	1985-2026	\$370,000	\$7,500	\$238,830	\$123,670	-	\$7,500	-	-	-
0721	1982-2024	285,000	-	91,675	193,325	-	-	-	-	-
0707	1981-2026	175,000	5,000	80,935	89,065	-	5,000	-	-	-
0707	1986-2026	75,000	1,500	48,510	24,990	-	1,500	-	-	-
0707	1991-2026	100,000	8,000	78,085	13,915	-	8,000	-	-	-
0793	1991-2026	75,000	20,500	48,050	6,450	\$8,000	12,500	\$13,500	\$1,687	-
0786	1990-2026	776,000	91,900	547,835	136,265	-	66,000	-	-	-
0734	1972-2011	250,000	-	7,500	242,500	-	-	-	-	-
0734	1978-2011	250,000	-	18,175	231,825	-	-	-	-	-
0740	1986-2024	325,000	-	147,095	177,905	-	-	-	-	-
0716	1990-2022	100,000	-	73,120	26,880	-	-	-	-	-
0748	1986-2025	85,000	4,000	51,255	29,745	-	1,000	-	-	-
0720	1986-2014	85,000	1,000	54,475	29,525	-	1,000	-	-	-
0402	1998-2028	995,000	-	-	-	-	50,000	-	-	-
0733	1967-2003	250,000	-	6,100	243,900	-	-	-	-	-
0742	1978-2026	280,000	2,450	31,510	246,040	-	1,500	-	-	-
0744	1993-2024	150,000	57,000	72,175	20,825	-	20,000	-	-	-
0790	1991-2026	60,000	26,200	30,360	3,440	12,000	8,000	23,200	4,019	-
	Total, Natural Resources	\$4,686,000	\$1,220,050	\$1,625,685	\$1,840,265	\$20,000	\$182,000	\$36,700	\$5,706	-
ENVIRONMENTAL PROTECTION										
0737	1981-2026	\$375,000	\$4,150	\$111,790	\$259,060	-	\$1,500	-	-	-
0764	1991-2026	65,000	14,900	41,940	8,160	\$8,000	6,900	\$14,900	\$2,581	-
	Total, Environmental Quality	\$440,000	\$19,050	\$153,730	\$267,220	\$8,000	\$8,400	\$14,900	\$2,581	-
HEALTH AND WELFARE										
0710	1986-2005	\$100,000	-	\$47,105	\$52,895	-	-	-	-	-
0729	1986-2006	50,000	-	24,750	25,250	-	-	-	-	-
	Total, Health & Welfare	\$150,000	-	\$71,855	\$78,145	-	-	-	-	-
YOUTH AND ADULT CORRECTIONAL										
0711	1989-2022	\$495,000	\$2,000	\$364,770	\$128,230	-	\$2,000	-	-	-
0796	1991-2026	500,000	34,000	379,400	86,600	\$18,000	16,000	\$34,000	\$4,610	-
0725	1984-2011	280,000	-	147,525	132,475	-	-	-	-	-
0727	1986-2009	250,000	-	134,500	115,500	-	-	-	-	-
0723	1983-2006	495,000	-	200,000	295,000	-	-	-	-	-
0724	1985-2006	300,000	-	137,500	162,500	-	-	-	-	-
0746	1989-2015	500,000	14,000	338,160	147,840	-	14,000	-	-	-

Schedule 11—Continued
STATEMENT OF GENERAL OBLIGATION BOND AND COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA
(Dollars in Thousands)

(This statement does not include bonds issued under authority of State instrumentalities that are not general obligations of the State of California)

Fund		General Obligation Bonds				Proposed Sales		Commercial Paper	
		Sales through December 31, 1996		Redeemed	after 1996-97	1997-98	1997-98	Finance Cmte	Through June 30, 1997
		Authorized	Unissued						
0747	New Prison Construction (1988)	817,000	16,000	186,555	4,000	8,000	7,600		
0751	New Prison Construction (1990)	450,000	41,000	86,250	22,000	12,000	41,000		
	Total, Youth & Adult Correctional.....	\$4,087,000	\$107,000	\$1,340,950	\$44,000	\$52,000	\$82,600		\$4,610
EDUCATION—K-12									
0794	Co Library Constr & Renov (1988)	\$75,000	\$12,500	\$10,260	\$2,000	\$5,000	\$9,100		\$4,539
0657	Public Education Facil (1996)	2,025,000	1,888,000	137,000	390,000	780,000	1,888,000		214,316
0739	School Bldg & Earthquake (1974) ²	40,000	—	—	—	—	—		—
0789	School Facilities (1988)	800,000	—	569,665	—	—	—		—
0708	School Facilities (1990)	800,000	55,000	160,530	11,000	22,000	55,000		—
0745	School Facilities (1992)	1,900,000	65,000	1,600,325	13,000	26,000	65,000		—
0743	State Sch Bldg Lease-Purch (1982)	1984-2005	—	170,175	—	—	—		—
0743	State Sch Bldg Lease-Purch (1984)	1987-2011	—	260,000	—	—	—		—
0743	State Sch Bldg Lease-Purch (1986)	1990-2011	—	546,800	—	—	—		—
0776	1988 School Facil Bond Act (Nov)	800,000	45,000	561,275	9,000	18,000	45,000		—
0774	1990 School Facil Bond Act (Jun)	800,000	48,000	566,495	10,000	20,000	48,000		—
0765	1992 School Facil Bond Act (Nov)	900,000	65,094	762,591	13,000	26,000	65,094		—
	Total, Education—K-12.....	\$9,890,000	\$2,178,594	\$1,860,370	\$448,000	\$897,000	\$2,175,194		\$218,855
HIGHER EDUCATION									
0736	Comm Coll Constr Prgm (1972)	\$160,000	—	\$160,000	—	—	—		—
0718	Health Sci Facil Constr Prgm (1971)	155,900	—	155,900	—	—	—		—
0782	Higher Education Facil (1986)	400,000	—	\$263,500	—	—	—		—
0785	Higher Education Facil (1988)	600,000	\$14,000	442,320	\$4,000	\$5,000	\$7,000		—
0791	Higher Education Facil (Jun 1990)	450,000	21,500	337,460	8,000	10,000	14,500		\$1,564
0705	Higher Education Facil (Jun 1992)	900,000	138,800	703,920	57,280	37,000	68,800		26,794
0658	Public Education Facil (1996)	975,000	975,000	—	77,000	120,000	145,000		667
	Total, Higher Education.....	\$3,640,900	\$1,149,300	\$744,400	\$126,000	\$189,000	\$235,300		\$29,025
GENERAL GOVERNMENT									
0768	Earthquake Safety & Public Bldg Rehab (1990)	\$300,000	\$250,000	\$6,600	\$45,000	\$56,700	\$84,000		—
	Total, General Government.....	\$300,000	\$250,000	\$6,600	\$45,000	\$56,700	\$84,000		—
	Total, All Agencies.....	\$28,798,900	\$7,961,894	\$6,735,490	\$1,000,000	\$2,000,000	\$3,206,594		\$302,897
PARTIALLY SELF-LIQUIDATING BONDS									
	State School Building Aid Bonds ³	\$460,000	—	\$445,750	—	—	—		—
SELF-LIQUIDATING BONDS									
	Co Water Resources Dev (1959) ⁴	\$1,750,000	\$167,600	\$499,690	—	\$1,000	—		—
	Harbor Development (1958) ⁵	60,000	—	59,055	—	no ⁶	—		—
	Veterans Bonds.....	5,210,000	254,370	2,241,780	no ⁶	—	—		—
	Total, Portfolly & Self-Liquidating Bonds.....	\$7,480,000	\$421,970	\$3,246,275	—	\$1,000	—		—
	TOTAL	\$36,278,900	\$8,383,864	\$9,981,765	\$1,000,000	\$2,001,000	\$3,206,594		\$302,897

¹ Amount authorized was reduced from \$200 million to \$15 million, pursuant to Chapter 116, Statutes of 1993.

² The portfolly self-liquidating State School Building Aid Bond of 1974 was repealed and reenacted as a general obligation bond pursuant to Chapter 552, Statutes of 1995, Chapter 1, Statutes of 1996, expanded the purposes for which the \$40 million unissued 1974 bond could be sold and included seismic safety upgrades in schools.

³ The state school building aid bonds debt service payments are portfolly refinanced with funds of the borrowing school districts over a 30- to 40-year repayment period as prescribed by statutes. The total authorized amount has been reduced by \$40 million which is now authorized as the School Building Aid and Earthquake Reconstruction and Replacement Bond Law of 1974. See footnote 2 for further detail.

⁴ The California Water Resource Development Bond Act, the San Francisco Harbor Improvement Acts, and the Veterans Bond Acts are public service enterprises that have their own revenues to finance their respective debt service expenditures.

⁵ The Harbor Development Bond Law of 1958 includes an authorization of \$50,000,000 for San Francisco harbor development and \$10,000,000 for the development of small craft harbors as provided by Chapter 103, Statutes of 1958, First Extraordinary Session.

⁶ Amount not available as of December 31, 1996.

Schedule 12-A
STATE APPROPRIATIONS LIMIT SUMMARY
(Dollars in Millions)

	1995-96			1996-97			1997-98		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Schedule 8:									
Revenues and Transfers	\$46,296	\$12,970	\$59,266	\$48,405	\$13,541	\$61,946	\$50,657	\$14,075	\$64,732
Less/Add: Transfers	-261	127	-134	-68	-7	-75	-93	-12	-105
Schedule 12-B:									
Less: Excluded Revenue	-	-3,293	-3,293	-	-3,339	-3,339	-	-3,421	-3,421
Schedule 12-C:									
Less: Non-Tax Revenue	-879	-282	-1,161	-794	-289	-1,083	-486	-356	-842
Schedule 12-D:									
Add: SAL Transfers	19	5	24	21	4	25	32	4	36
TOTAL, SAL REVENUES AND TRANSFERS	\$45,175	\$9,527	\$54,702	\$47,564	\$9,910	\$57,474	\$50,110	\$10,290	\$60,400
Schedule 12-E:									
Less: Exclusions	-15,781	-4,735	-20,516	-17,599	-4,993	-22,592	-18,410	-5,186	-23,596
TOTAL, SAL APPROPRIATIONS			\$34,186			\$34,882			\$36,804
CALCULATION OF LIMIT ROOM:									
Appropriations Limit (Sec. 12.00)			\$39,309			\$42,002			\$45,127
Less: Total SAL Appropriations			-34,186			-34,882			-36,804
Appropriation Limit Room/(Surplus)			\$5,123			\$7,120			\$8,323

Schedule 12-B
STATE APPROPRIATIONS LIMIT
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)

Source Code	Source	Actual 1995-96	Estimated 1996-97	Estimated 1997-98
MAJOR REVENUES:				
110500	Cigarette Tax	461,900	454,000	452,900
110900	Horse Racing Fees-Licenses	28,308	27,406	25,916
111100	Horse Racing Fines and Penalties	1,112	1,080	1,036
111300	Horse Racing Miscellaneous	8,648	8,757	9,046
113600	Motor Vehicle License (In-Lieu) Fees	444	500	500
114300	Other Motor Vehicle Fees	832	840	840
	TOTAL, MAJOR TAXES AND LICENSES	\$501,244	\$492,583	\$490,238
MINOR REVENUES:				
REGULATORY TAXES AND LICENSES:				
120200	General Fish and Game Taxes	\$2,189	\$2,307	\$2,225
120300	Energy Resource Surcharge	42,207	43,051	110,371
120600	Quarterly Public Util Commission Fees	68,345	61,454	59,053
120900	Off-Highway Vehicle Fees	1,219	1,300	1,300
121000	Liquor License Fees	41,289	34,154	34,154
121100	Genetic Disease Testing Fees	52,166	56,685	58,151
121200	Other Regulatory Taxes	53,618	54,197	41,531
121300	New Motor Vehicle Dealer License Fee	1,450	1,497	1,464
121500	General Fish and Game Lic Tags Permits	70,097	69,558	71,339
122400	Elevator and Boiler Inspection Fees	9,035	8,813	8,813
122700	Employment Agency License Fees	426	743	743
122900	Teacher Credential Fees	9,357	10,701	10,701
123000	Teacher Examination Fees	4,292	6,290	6,710
123100	Insurance Co License Fees & Penalties	24,588	24,720	25,469
123200	Insurance Company Examination Fees	16,624	18,345	18,345
123300	Other Insurance Department Fees	32,595	28,143	24,104
123400	Division of Real Estate Examination Fees	1,671	3,232	2,694
123500	Div of Real Estate License Fees	14,971	19,905	20,097
123600	Subdivision Filing Fees	5,098	5,180	5,200
123800	Building Construction Filing Fees	1,492	1,800	1,800
124000	Savings & Loan Fees	7	-	-
124100	Domestic Corporation Fees	5,042	5,076	5,175
124200	Foreign Corporation Fees	1,669	740	755
124300	Notary Public License Fees	877	875	1,040
124400	Filing Financing Statements	4,710	7,913	7,913
125100	Beverage Container Redemption Fees	327,699	343,105	345,000
125300	Processing Fees	15,378	14,834	16,489
125400	Hazardous Waste Control Fees	48,722	42,864	40,340
125600	Other Regulatory Fees	399,179	430,196	450,829
125700	Other Regulatory Licenses and Permits	216,015	235,207	236,213
125800	Renewal Fees	119,566	123,059	111,180
125900	Delinquent Fees	4,308	2,864	2,848
	TOTAL, REGULATORY TAXES AND LICENSES	\$1,595,901	\$1,658,808	\$1,722,046
REVENUE FROM LOCAL AGENCIES:				
130600	Architecture Public Building Fees	\$22,669	\$25,752	\$27,047
130700	Penalties on Traffic Violations	85,556	86,817	86,741
130800	Penalties on Felony Convictions	27,902	26,000	32,000
130900	Fines-Crimes of Public Offense	4,678	9,000	11,000
131000	Fish and Game Violation Fines	878	1,003	1,003
131100	Penalty Assessments on Fish & Game Fines	420	429	429
131200	Interest on Loans to Local Agencies	338	327	322
131300	Add'l Assmnts on Fish & Game Fines	27	40	60
131600	Fingerprint ID Card Fees	25,280	26,350	27,380
131700	Misc Revenue From Local Agencies	3,256	3,484	3,896
131900	Rev Local Govt Agencies-Cost Recoveries	401	360	360
	TOTAL, REVENUE FROM LOCAL AGENCIES	\$171,405	\$179,562	\$190,238

Schedule 12-B—Continued
STATE APPROPRIATIONS LIMIT
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)

Source Code	Source	Actual 1995-96	Estimated 1996-97	Estimated 1997-98
SERVICES TO THE PUBLIC:				
140600	Stote Beach and Park Service Fees	\$51,466	\$53,300	\$53,700
140900	Parking Lot Revenues	5,107	7,913	7,952
141200	Sales of Documents	1,050	1,135	1,122
142000	General Fees--Secretary of State	9,573	11,173	11,737
142200	Parental Fees	2,004	1,710	1,950
142500	Miscellaneous Services to the Public	18,806	19,638	20,165
142800	California State University Fees	608,438	603,668	609,368
143000	Personalized License Plates	32,461	33,021	33,284
	TOTAL, SERVICES TO THE PUBLIC	\$728,905	\$731,558	\$739,278
USE OF PROPERTY AND MONEY:				
150200	Income From Pooled Money Investments	\$1,043	\$1,759	\$1,964
150300	Income From Surplus Money Investments	59,050	53,804	52,802
150400	Interest Income From Loans	1,789	1,951	2,823
150500	Interest Income From Interfund Loans	-	121	-
150600	Income From Other Investments	144	165	186
151200	Income From Condemnation Deposits Fund	1	-	-
151800	Federal Lands Royalties	23,433	21,576	21,576
152200	Rentals of State Property	3,358	3,403	3,064
152300	Misc Revenue From Use of Property & Money	9,920	11,722	9,970
152400	School Lands Royalties	7	10	10
	TOTAL, USE OF PROPERTY AND MONEY	\$98,745	\$94,511	\$92,395
MISCELLANEOUS:				
160200	Penalties & Interest on UI & DI Contrib	\$50,372	\$45,638	\$48,377
160400	Sale of Fixed Assets	798	38	38
160500	Sale of Confiscated Property	40	40	40
160600	Sale of State's Public Lands	40	320	20
161000	Escheat of Uncloimed Checks & Warrants	272	180	179
161300	Subsequent Injuries Revenue	3,108	3,300	3,300
161400	Miscellaneous Revenue	38,594	38,141	39,101
161800	Penalties & Intrst on Personal Income Tx	12,851	13,000	14,100
161900	Other Revenue - Cost Recoveries	38,263	25,119	25,789
164100	Traffic Violations	7,012	6,963	6,963
164200	Parking Violations	62	75	75
164300	Penalty Assessments	43,396	47,044	47,218
164400	Civil & Criminal Violation Assessment	2,136	1,913	1,761
	TOTAL, MISCELLANEOUS	\$196,944	\$181,771	\$186,961
	TOTAL, MINOR REVENUES	\$2,791,900	\$2,846,210	\$2,930,918
	TOTALS, REVENUE TO EXCLUDED FUNDS			
	(MAJOR AND MINOR)	\$3,293,144	\$3,338,793	\$3,421,156

Schedule 12-C
STATE APPROPRIATIONS LIMIT
NON-TAX REVENUES IN FUNDS SUBJECT TO LIMIT
(Dollars In Thousands)

		Actual 1995-96		Estimated 1996-97		Estimated 1997-98	
		General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
MAJOR REVENUES:							
111100	Horse Racing Fines and Penalties.....	\$106	—	\$86	—	\$82	—
111200	Horse Racing Fees-Unclaimed P-M Tickets.....	444	—	355	—	337	—
111300	Horse Racing Miscellaneous.....	19	—	13	—	12	—
114200	Driver's License Fees.....	—	103,879	—	109,132	—	175,900
114300	Other Motor Vehicle Fees.....	—	30,028	—	31,000	—	33,000
114400	Identification Card Fees.....	—	6,733	—	6,900	—	6,600
TOTAL, MAJOR TAXES AND LICENSES.....		\$569	\$140,640	\$454	\$147,032	\$431	\$215,500
MINOR REVENUES:							
REGULATORY TAXES AND LICENSES:							
120800	Hwy Carrier Uniform Business License Tax.....	\$6,029	—	\$1,500	—	\$250	—
120900	Off-Highway Vehicle Fees.....	—	2,284	—	2,200	—	2,200
121200	Other Regulatory Taxes.....	9,997	—	10,009	—	10,897	—
122400	Elevator and Boiler Inspection Fees.....	188	—	165	—	165	—
122600	Industrial Homework Fees.....	6	—	7	—	7	—
122700	Employment Agency License Fees.....	574	—	500	—	500	—
122800	Employment Agency Filing Fees.....	17	—	17	—	17	—
124500	Candidate Filing Fee.....	539	—	4	—	752	—
125200	Explosive Permit Fees.....	6	—	3	—	3	—
125600	Other Regulatory Fees.....	65,991	—	64,923	—	65,003	—
125700	Other Regulatory Licenses and Permits.....	33,868	18,401	35,056	17,462	31,580	17,474
TOTAL, REGULATORY TAXES AND LICENSES.....		\$117,215	\$20,685	\$112,184	\$19,662	\$109,174	\$19,674
REVENUE FROM LOCAL AGENCIES:							
130100	Trial Court Revenues.....	\$308,485	—	\$290,500	—	—	—
131500	Narcotic Fines.....	2,486	—	2,470	—	2,470	—
131700	Misc Revenue From Local Agencies.....	425	488	389	500	303	500
131900	Rev Local Govt Agencies-Cost Recoveries.....	2,045	—	2,923	—	2,863	—
TOTAL, REVENUE FROM LOCAL AGENCIES.....		\$313,441	\$488	\$296,282	\$500	\$5,636	\$500
SERVICES TO THE PUBLIC:							
140100	Pay Patients Board Charges.....	\$19,403	—	\$19,400	—	\$17,160	—
140900	Parking Lot Revenues.....	681	—	—	—	—	—
141000	Fire Prevention and Suppression.....	414	—	500	—	500	—
141200	Sales of Documents.....	449	1,504	444	1,535	445	1,566
142000	General Fees-Secretary of State.....	46	—	60	—	34	—
142300	Guardianship Fees.....	13	—	15	—	15	—
142500	Miscellaneous Services to the Public.....	6,273	48,606	3,673	50,731	3,882	50,713
142600	Receipts From Health Care Deposit Fund.....	8,000	—	8,000	—	8,000	—
142700	Medicare Receipts Frm Federal Government....	7,450	—	8,040	—	7,032	—
TOTAL, SERVICES TO THE PUBLIC.....		\$42,729	\$50,110	\$40,132	\$52,266	\$37,068	\$52,279
USE OF PROPERTY AND MONEY:							
152000	Oil & Gas Lease-1% Revenue City/County.....	\$129	—	\$125	—	\$110	—
152200	Rentals of State Property.....	6,433	31,071	6,357	31,224	6,232	31,219
152300	Misc Revenue Frm Use of Property & Money.....	16,137	25,000	17,000	24,421	18,000	23,990
152500	State Lands Royalties.....	71,355	—	69,348	—	68,248	—
TOTAL, USE OF PROPERTY AND MONEY.....		\$94,054	\$56,071	\$92,830	\$55,645	\$92,590	\$55,209
MISCELLANEOUS:							
160400	Sale of Fixed Assets.....	\$1,089	\$5	\$27,137	—	\$17,477	—

Schedule 12-C—Continued
STATE APPROPRIATIONS LIMIT
NON-TAX REVENUES IN FUNDS SUBJECT TO LIMIT
(Dollars In Thousands)

		Actual 1995-96		Estimated 1996-97		Estimated 1997-98	
		General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
160500	Sale of Confiscated Property	4,501	—	3,259	—	3,259	—
160600	Sale of State's Public Lands.....	71	—	100	400	100	—
160700	Proceeds From Estates of Deceased Person	66	—	20	—	27	—
160800	Escheat of Unclaimed Property	1	—	—	—	—	—
160900	Revenue-Abandoned Property	245,427	—	165,000	—	165,000	—
161000	Escheat of Unclaimed Checks & Warrants	3,401	50	3,193	50	3,193	50
161400	Miscellaneous Revenue	30,947	13,853	37,175	13,131	36,620	13,067
161900	Other Revenue - Cost Recoveries.....	6,409	—	—	—	—	—
164200	Parking Violations.....	2	—	2	—	2	—
164300	Penalty Assessments	18,961	—	16,240	—	15,063	—
164400	Civil & Criminal Violation Assessment.....	301	—	178	—	203	—
TOTAL, MISCELLANEOUS		\$311,176	\$13,908	\$252,304	\$13,581	\$240,944	\$13,117
TOTAL, MINOR REVENUES		\$878,615	\$141,262	\$793,732	\$141,654	\$485,412	\$140,779
TOTALS, NON-TAX REVENUE							
(MAJOR and MINOR)		\$879,184	\$281,902	\$794,186	\$288,686	\$485,843	\$356,279

Schedule 12-D
STATE APPROPRIATIONS LIMIT
TRANSFERS FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)

	Actual 1995-96		Estimated 1996-97		Estimated 1997-98	
	General Fund	Special Fund	General Fund	Special Fund	General Fund	Special Fund
Transfers Per Sec 12.20, Budget Acts of 1996 & 1997....	-	-	\$87	-	\$98	-
From Guide Dogs for the Blind Fund (0024) to General Fund (0001) (Per Item 1350-011-0001, Budget Act 1994)	\$11	-	-	-	-	-
From Alcohol Beverage Control Fund (0081) to General Fund (0001) (Per Business & Professions Code 25761)	8,744	-	5,220	-	4,709	-
From Energy and Resource Fund (0188) to General Fund (0001) (Per Ch 908, Statutes of 1980)	426	-	448	-	490	-
From Fair and Exposition Fund (0191) to General Fund (0001) (Per Item 8560-011-0191, Budget Act of 1995)	265	-	-	-	-	-
From Fair and Exposition Fund (0191) to General Fund (0001) (Per Item 8570-011-0191, Budget Acts of 1995, 1996, 1997)	246	-	246	-	246	-
From Satellite Wagering Account (0192) to General Fund (0001) (Per Item 8570-013-0192, Budget Act of 1995)	2,700	-	-	-	-	-
From Fish and Game Preservation Fund (0200) to General Fund (0001) (Per 3600-014-0164, Budget Act of 1992)	2,000	-	-	-	-	-
From Insurance Fund (0217) to General Fund (0001) (Per Ch 187, Statutes of 1996)	-	-	-	-	16,800	-
From Business Fees Fund, Secty of State's (0228) to General Fund (0001) (Per Ch 1059, Statutes of 1991)	1,096	-	4,065	-	3,083	-
From OES Disaster Admin Suppt Acc (Abol 7/1/97) (0250) to General Fund (0001) (Per Government Code Sec 16346)	-	-	23	-	-	-
From Public Foc&loc Ag Dis Res Ac (Abol 7/1/97) (0251) to General Fund (0001) (Per Government Code Sec 16346)	-	-	2,753	-	-	-
From Street and Highway Account (Abol 7/1/97) (0254) to General Fund (0001) (Per Government Code Sec 16346)	-	-	889	-	-	-

Schedule 12-D—Continued
STATE APPROPRIATIONS LIMIT
TRANSFERS FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)

	<u>Actual 1995-96</u>		<u>Estimated 1996-97</u>		<u>Estimated 1997-98</u>	
	General	Special	General	Special	General	Special
From Motor Carriers Permit Fund (0292) to General Fund (0001) (Per Ch 1042, Statutes of 1996)	-	-	6,845	-	6,541	-
From Olympic Training Account, California (0442) to General Fund (0001) (Per Ch 28, Statutes of 1989)	200	-	100	-	100	-
From Energy Resources Programs Account (0465) to General Fund (0001) (Per Item 3360-011-0465, Budget Act of 1995)	3,549	-	-	-	-	-
From Environmental License Plate Fund, Calif (0140) to Motor Vehicle Account, STF (0044) (Per Sec 21191(B), Public Resources Code)	-	4,354	-	4,152	-	3,546
TOTALS.....	\$19,237	\$4,354	\$20,676	\$4,152	\$32,067	\$3,546

Schedule 12-E
STATE APPROPRIATIONS LIMIT
EXCLUDED APPROPRIATIONS
(In Millions)

Budget	Fund	Actual 1995-96	Estimated 1996-97	Estimated 1997-98
DEBT SERVICE:				
9600 Bond Interest and Redemption (9600-510-0001)	General	\$1,911	\$1,953	\$1,979
(9590-501-0001)	General	1	5	5
3960 Chapter 376/84 Taxics (3960-535-0484)	Special	4	4	4
Lease-Revenue Bonds (Capital Outlay)	General	414	474	544
TOTAL DEBT SERVICE		\$2,330	\$2,436	\$2,532
CAPITAL OUTLAY:				
Various	General	\$25	\$71	\$137
Various	Special	35 ^a	56 ^a	47 ^a
TOTAL CAPITAL OUTLAY		\$60	\$127	\$184
SUBVENTIONS:				
6100 K-12 Appartianments (6100-601-0001)	General	\$9,288	\$10,558	\$11,201
6100 Caunty Offices (6100-608-0001)	General	134	174	191
6870 Cammunity Calleges (6870-101-0001)	General	1,211	1,391	1,457
SUBVENTIONS—EDUCATION		\$10,633	\$12,123	\$12,849
5195 State-Lacal Realignment Vehicle License Fees	Special	\$810	\$852	\$898
Vehicle License Collection Acct.	Special	14	14	14
9100 Tax Relief (9100-101-0001)	General	439	448	457
Renter's Tax Credit	General	3	—	—
9210 Lacal Gavernment Financing (9210-103-0001)	General	1	5	3
(9210-603-0001)	General	2	2	2
9350 Shared Revenues (9430-640-0064)	Special	2,347	2,487	2,610
SUBVENTIONS—OTHER		\$3,616	\$3,808	\$3,984
MANDATES:				
6100 K-12 Desegregation (6100-114-0001)	General	\$415	\$448	\$501
(6110-115-0001)	General	51	51	—
6100 K-12 Medicare	General	45	45	45
6300 Cantribution ta STRS (6300-602-0001)	General	530	550	576
6870 Cammunity Calleges Medicare	General	5	5	5
Federal (Various Health and Welfare)	General	1,306	1,419	1,307
TOTAL MANDATES		\$2,352	\$2,518	\$2,434
PROPOSITION 111:				
Motor Vehicle Fuel Tax: Gasoline	Special	\$1,163	\$1,211	\$1,235
Motor Vehicle Fuel Tax: Diesel	Special	174	178	186
Weight Fee Revenue	Special	188	191	192
TOTAL PROPOSITION 111		\$1,525	\$1,580	\$1,613
TOTAL EXCLUSIONS:		\$20,516	\$22,592	\$23,596
General Fund		\$15,781	\$17,599	\$18,410
Special Funds		4,735	4,993	5,186

^a Excludes Proposition 111 Capital Outlay

